

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

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

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

Commission File No.	Exact Name of Registrants as Specified in their Charters, Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification Nos.
1-14201	SEMPRA ENERGY 101 Ash Street San Diego, California 92101 (619)696-2034	California	33-0732627
1-3779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California	95-1184800
1-40	PACIFIC ENTERPRISES 101 Ash Street San Diego, California 92101 (619)696-2020	California	94-0743670
1-1402	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
SDG&E Preference Stock (Cumulative) Without Par Value (except \$1.70 Series)	NYSE Amex
SDG&E Cumulative Preferred Stock, \$20 Par Value (except 4.60% Series)	NYSE Amex
Pacific Enterprises Preferred Stock: \$4.75 dividend, \$4.50 dividend \$4.40 dividend, \$4.36 dividend	NYSE Amex

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

None

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

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

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	<u> X </u>	No	<u> </u>
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Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

Sempra Energy	Yes	<u> X </u>	No	<u> </u>
San Diego Gas & Electric Company	Yes	<u> </u>	No	<u> </u>
Pacific Enterprises	Yes	<u> </u>	No	<u> </u>
Southern California Gas Company	Yes	<u> </u>	No	<u> </u>

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

 X

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

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
Sempra Energy	<u> [X] </u>	<u> [] </u>	<u> [] </u>	<u> [] </u>
San Diego Gas & Electric Company	<u> [] </u>	<u> [] </u>	<u> [X] </u>	<u> [] </u>
Pacific Enterprises	<u> [] </u>	<u> [] </u>	<u> [X] </u>	<u> [] </u>
Southern California Gas Company	<u> [] </u>	<u> [] </u>	<u> [X] </u>	<u> [] </u>

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>
Pacific Enterprises	Yes	<u> </u>	No	<u> X </u>
Southern California Gas Company	Yes	<u> </u>	No	<u> X </u>

Exhibit Index on page 47. Glossary on page 56.

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE:

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

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

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

SEMPRA ENERGY FORM 10-K

TABLE OF CONTENTS

	<u>Page</u>
Information Regarding Forward-Looking Statements	3
<hr/>	
PART I	
Item 1. Business	4
Description of Business	5
Company Websites	5
Government Regulation	5
California Natural Gas Utility Operations	7
Electric Utility Operations	9
Rates and Regulation – Sempra Utilities	12
Sempra Global	12
Environmental Matters	14
Executive Officers of the Registrants	15
Other Matters	17
Item 1A. Risk Factors	18
Item 1B. Unresolved Staff Comments	25
Item 2. Properties	25
Item 3. Legal Proceedings	26
Item 4. Submission of Matters to a Vote of Security Holders	26
<hr/>	
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	27
Item 6. Selected Financial Data	28
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	28
Item 8. Financial Statements and Supplementary Data	28
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	28
Item 9A. Controls and Procedures	28
Item 9B. Other Information	28
<hr/>	
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	29
Item 11. Executive Compensation	29
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	29
Item 13. Certain Relationships and Related Transactions, and Director Independence	29
Item 14. Principal Accountant Fees and Services	29
<hr/>	

SEMPRA ENERGY FORM 10-K

TABLE OF CONTENTS (CONTINUED)

	<i>Page</i>
PART IV	
Item 15. Exhibits and Financial Statement Schedules	30
Sempra Energy: Consent of Independent Registered Public Accounting Firm and Report on Schedule	31
San Diego Gas & Electric Company: Consent of Independent Registered Public Accounting Firm	32
Southern California Gas Company: Consent of Independent Registered Public Accounting Firm	33
Pacific Enterprises: Report of Independent Registered Public Accounting Firm	34
Schedule I – Sempra Energy Condensed Financial Information of Parent	35
Schedule I – Pacific Enterprises Condensed Financial Information of Parent	39
Signatures	43
Exhibit Index	47
Glossary	56

This combined Form 10-K is separately filed by Sempra Energy, San Diego Gas & Electric Company, Pacific Enterprises and Southern California Gas Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes representations only as to itself and makes no other representation whatsoever as to any other company.

You should read this report in its entirety as it pertains to each respective reporting company. No one section of the report deals with all aspects of the subject matter. Separate Item 6 and 8 sections are provided for each reporting company, except for the Notes to Consolidated Financial Statements. The Notes to Consolidated Financial Statements for all of the reporting companies are combined. All Items other than 6 and 8 are combined for the reporting companies.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

- § local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments;
- § actions by the California Public Utilities Commission, the California State Legislature, the California Department of Water Resources, the Federal Energy Regulatory Commission, the Federal Reserve Board, and other regulatory and governmental bodies in the United States and other countries in which we operate;
- § capital markets conditions and inflation, interest and exchange rates;
- § energy and trading markets, including the timing and extent of changes and volatility in commodity prices;
- § the availability of electric power, natural gas and liquefied natural gas;
- § weather conditions and conservation efforts;
- § war and terrorist attacks;
- § business, regulatory, environmental and legal decisions and requirements;
- § the status of deregulation of retail natural gas and electricity delivery;
- § the timing and success of business development efforts;
- § 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 2009 Annual Report to Shareholders (Annual Report), which 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)

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

§ Southern California Gas Company (SoCalGas)

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

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

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

Sempra Commodities - Pending Transaction

In April 2008, Sempra Energy formed a partnership with The Royal Bank of Scotland plc (RBS) to purchase and operate our commodities-marketing businesses, which generally comprised the Sempra Commodities segment. In November 2009, RBS announced its intention to divest its interest in this joint venture, RBS Sempra Commodities LLP (RBS Sempra Commodities), following a directive from the European Commission to dispose of certain assets. On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement with J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures), whereby J.P. Morgan Ventures will purchase the following businesses from the joint venture:

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

§ the European power and gas business

§ the investor products business

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

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

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

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

COMPANY WEBSITES

Company website addresses are:

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

SDG&E – <http://www.sdge.com>

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

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

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

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

GOVERNMENT REGULATION

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

California Utility Regulation

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

The California Public Utilities Commission:

§ 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 transmission, electric 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 Sempra Utilities with Sempra Energy and its other affiliates.

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

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

§ 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 Sempra Utilities' long-term investment decisions.

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

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

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

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

United States Utility Regulation

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

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

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

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

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

Local Regulation Within the U.S.

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

SDG&E has

§ electric franchises with the two counties and the 26 cities in 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 franchises have fixed expiration dates, ranging from 2012 to 2035.

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

Other Regulation

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

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

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

Several of our segments operate in Mexico as follows:

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

§

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

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

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

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

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

Licenses and Permits

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

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

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

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

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

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

CALIFORNIA NATURAL GAS UTILITY OPERATIONS

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

Customers

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

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

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

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

Natural Gas Procurement and Transportation

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

To ensure the delivery of the natural gas supplies to its distribution system and to meet the seasonal and annual needs of customers, SoCalGas has entered into firm interstate pipeline capacity contracts that require the payment of fixed reservation charges to reserve firm transportation rights. Interstate pipeline companies, primarily El Paso Natural Gas Company, Transwestern Pipeline Company, and Kern River Gas Transmission

Company, provide transportation services into SoCalGas' intrastate transmission system for supplies purchased by SoCalGas or its transportation customers from outside of California. The FERC regulates the rates that interstate pipeline companies may charge for natural gas and transportation services.

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

Natural Gas Storage

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

Demand for Natural Gas

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

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

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

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

- § the availability of alternative sources of generation; for example, the availability of hydroelectricity is highly dependent on precipitation in the western U.S. and Canada;
- § the performance of other generation sources in the western U.S., including nuclear and coal, renewable energy and other natural gas facilities outside the service area; and
- § the changes in end-use electricity demand; for example, natural gas use generally increases during extended heat waves.

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

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

ELECTRIC UTILITY OPERATIONS

Customers

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

- § 1,225,500 residential
- § 146,700 commercial
- § 500 industrial
- § 2,000 street and highway lighting
- § 4,500 direct access

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

that its new meter growth rate in 2010 will be comparable to that in 2009.

Resource Planning and Power Procurement

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

Electric Resources

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

SDG&E ELECTRIC RESOURCES			
Supplier	Source	Expiration date	Megawatts (MW)
PURCHASED-POWER CONTRACTS:			
Department of Water Resources (DWR)- allocated contracts:			
JP Morgan	Natural gas	2010	325
Sunrise Power Co. LLC	Natural gas	2012	570
Other (5 contracts)	Natural gas/Wind	2011 to 2013	259
Total			<u>1,154</u>
Other contracts with Qualifying Facilities (QFs)(1):			
Applied Energy Inc.	Cogeneration	2019	116
Yuma Cogeneration	Cogeneration	2024	56
Goal Line Limited Partnership	Cogeneration	2025	50
Other (18 contracts)	Cogeneration	2009(2) and thereafter	48
Total			<u>270</u>
Other contracts with renewable sources:			
Oasis Power Partners	Wind	2019	60
Kumeyaay	Wind	2025	50
Covanta Delano	Bio-mass	2017	49
Iberdrola Renewables	Wind	2018	25
WTE/FPL	Wind	2019	17
PacificCorp	Wind	2010	200
NaturEner	Wind	2024	210
Other (9 contracts)	Bio-gas/Hydro	2012 to 2022	33
Total			<u>644</u>
Other long-term and tolling contracts(3):			
Cabrillo Power I, LLC	Natural gas	2010	964
Dynegy South Bay Holdings, LLC	Natural gas	2009(4)	704
Otay Mesa Energy Center LLC	Natural gas	2019	573
Portland General Electric (PGE)	Coal	2013	89
Enernoc	Demand response/ Distributed generation	2016	25
Total			<u>2,355</u>
Total contracted			<u>4,423</u>
GENERATION:			
Palomar	Natural gas		560
SONGS	Nuclear		430
Miramar	Natural gas		96
Total generation			<u>1,086</u>
TOTAL CONTRACTED AND GENERATION			<u>5,509</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. It also includes small power production facilities, which are generating facilities whose primary energy source is renewable (hydro, wind, solar, etc.), biomass, waste, or geothermal resources. Small power production facilities are generally limited in size to 80 MW.

(2) One 25-MW contract expired effective January 1, 2010.

(3) Tolling contracts are purchased-power agreements under which we provide the fuel for generation to the energy supplier.

(4) This contract expired effective January 1, 2010.

Under the contract with PGE, SDG&E pays a capacity charge plus a charge based on the amount of energy received and/or PGE's non-fuel costs. Costs 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-available 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 and Miramar generating facilities and for the Cabrillo Power I, LLC and Otay Mesa Energy Center LLC tolling contracts. Purchases are from various

southwestern U.S. suppliers and are primarily based on published monthly bid-week indices. SDG&E's natural gas is delivered from southern California border receipt points to the SoCal CityGate pool via firm access rights which expire on March 31, 2011. The natural gas is then delivered from the SoCal CityGate pool to the generating facilities through SoCalGas' pipelines in accordance with a transportation agreement that expires on May 31, 2011. SDG&E has also contracted with SoCalGas for natural gas storage from April 1, 2009 to March 31, 2010.

SDG&E also buys natural gas as the California DWR's limited agent for the DWR-allocated contracts. Most of the natural gas deliveries for the DWR-allocated contracts are transported through the Kern River Gas Transmission Pipeline under a long-term transportation agreement. The DWR is financially responsible for the costs of gas and transportation.

SONGS

SDG&E has a 20-percent ownership interest in SONGS, which is located south of San Clemente, California. SONGS consists of two operating nuclear generating units: Units 2 and 3. Unit 1 is permanently shut down and is being decommissioned. The city of Riverside owns 1.79 percent of Units 2 and 3, and Southern California Edison (Edison), the operator of SONGS, owns the remaining interest.

Units 2 and 3 began commercial operation in August 1983 and April 1984, respectively. SDG&E's share of the capacity is 214 MW of Unit 2 and 216 MW of Unit 3.

Unit 1 was removed from service in November 1992 when the CPUC issued a decision to permanently shut it down. The decommissioning of Unit 1 is now in progress and its spent nuclear fuel is being stored on site in an independent spent fuel storage installation (ISFSI) licensed by the NRC.

SDG&E has fully recovered the capital invested through December 31, 2003 in SONGS and earns a return only on subsequent capital additions, including SDG&E's share of costs associated with the steam generator replacement project, which is currently in progress.

We provide additional information concerning the SONGS units and nuclear decommissioning below in "Environmental Matters" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 7, 15 and 17 of the Notes to Consolidated Financial Statements in the Annual Report.

Nuclear Fuel Supply

The nuclear fuel supply cycle includes materials and services (uranium oxide, conversion of uranium oxide to uranium hexafluoride, uranium enrichment services, and fabrication of fuel assemblies) performed by others under various contracts that extend through 2020. The supply contracts are index-priced and provide nuclear fuel supply through 2022, the expiration of SONGS' NRC license.

Spent fuel from SONGS is being stored on site in both the ISFSI and spent fuel pools. With the completion of the current phase of Unit 1 decommissioning, the site has adequate space to build ISFSI storage capacity through 2022. Pursuant to the Nuclear Waste Policy Act of 1982, SDG&E entered into a contract with the U.S. Department of Energy (DOE) for spent-fuel disposal. Under the agreement, the DOE is responsible for the ultimate disposal of spent fuel from SONGS. SDG&E pays the DOE a disposal fee of \$1.00 per megawatt-hour of net nuclear generation, or \$3 million per year. It is uncertain when the DOE will begin accepting spent fuel from any nuclear generation facility.

We provide additional information concerning nuclear-fuel costs and the storage and movement of spent fuel in Notes 15 and 17, respectively, of the Notes to Consolidated Financial Statements in the Annual Report.

Power Pools

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-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.

Mexico's Baja California system is connected to SDG&E's system via two 230-kV interconnections with firm capability of 408 MW in the north to south direction and 800 MW in the south to north direction.

In December 2008, the CPUC approved SDG&E's Sunrise Powerlink, a new 120-mile, 500-kV transmission line between the Imperial Valley and the San Diego region. The project is in the pre-construction phase, including final engineering, design and procurement activities. SDG&E expects the line to be in commercial operation in 2012. The Sunrise Powerlink is designed to have a path rating of 1,000 MW. We provide further discussion in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Transmission Access

The National Energy Policy Act governs procedures for requests for transmission service. The FERC approved the California investor-owned utilities' (IOUs) transfer of operation and control of their transmission facilities to the Independent System Operator (ISO) in 1998. We provide additional information regarding transmission issues in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

RATES AND REGULATION – SEMPRA UTILITIES

We provide information concerning rates and regulation applicable to the Sempra Utilities in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 1, 15 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA GLOBAL

Sempra Global is a holding company for most of our subsidiaries that are not subject to California utility regulation. Sempra Global includes Sempra Commodities, Sempra Generation, Sempra Pipelines & Storage and Sempra LNG. We provide descriptions of these business units and information concerning their operations under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 1, 3, 4, 5, 17, 18 and 20 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 products and services. They are engaged in highly competitive activities that require significant capital investments and highly skilled and experienced personnel. Many of their competitors may have significantly greater financial, personnel and other resources than Sempra Global.

Sempra Commodities

Sempra Commodities is primarily comprised of our investment in RBS Sempra Commodities, a joint venture formed in April 2008. This business unit also includes Sempra Rockies Marketing, which holds firm service capacity on the Rockies Express Pipeline.

All aspects of RBS Sempra Commodities' business are intensely competitive and are expected to remain so. Sources of competition include the following:

- § other brokers and dealers,
- § investment banking firms,
- § energy companies, and
- § other companies that offer similar products and services in the U.S. and globally.

RBS Sempra Commodities' competition is based on a number of factors, including transaction execution, financing, products and services, innovation, reputation and price.

RBS Sempra Commodities also faces intense competition in attracting and retaining qualified employees. RBS Sempra Commodities' ability to compete effectively will depend upon the ability to attract new employees and retain and motivate existing employees.

RBS Sempra Commodities' competitors include Goldman Sachs, JPMorgan, Morgan Stanley and Barclay's Capital.

The partnership is discussed in Notes 3, 4 and 20 of the Notes to the Consolidated Financial Statements. As we discuss above under "Description of Business," on February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership.

Sempra Generation

For sales of non-contracted power, Sempra Generation 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 generally 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 allows them to build, buy and upgrade generation without relying exclusively on market clearing prices to recover their investments.

When Sempra Generation sells power not subject to long-term contract 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. Additionally, generation from Sempra Generation's renewable energy assets are exposed to fluctuations in naturally occurring conditions such as wind, weather and hours of sunlight. Some of Sempra Generation's 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 Sempra Generation, 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.

Sempra Generation's competitors include

§ Edison Mission Energy

§ Reliant Energy

§ FPL Energy LLC

§ Mirant Energy

§ Calpine

§ Dynegy

Sempra Pipelines & Storage

Within its market area, Sempra Pipelines & Storage's natural gas storage facilities and pipelines compete with other storage facilities and pipelines (both regulated and unregulated systems). It competes primarily on the basis of price (in terms of storage and transportation fees), available capacity, and connections to downstream markets.

Sempra Pipelines & Storage's competitors include

§ Iberdrola Renewables (Enstor)

§ Kinder Morgan

§ Spectra Energy

§ Enterprise Product Partners LP

§ Energy Transfer Partners LP

§ Boardwalk Pipeline Partners

§ Plains All-American LP

§ El Paso Corporation

§ The Williams Companies

§ TransCanada

§ Various independent midstream asset developers

Sempra LNG

New supplies to meet North America's natural gas demand may be developed from a combination of the following sources:

§ existing producing basins in the United States, Canada, and Mexico;

§ frontier basins in Alaska, Canada, and offshore North America;

§ areas currently restricted from exploration and development due to public policies, such as areas in the Rocky Mountains and offshore Atlantic, Pacific and Gulf of Mexico coasts;

§ previously inaccessible or uneconomic natural gas reserves through the use of new extraction techniques; and

§ LNG imported into LNG receipt terminals in operation or under development in the United States, Canada and Mexico.

In addition, the demand for energy currently met by natural gas could alternatively be met by other energy forms such as coal, hydroelectric, oil, wind, solar, geothermal, biomass and nuclear energy. Sempra LNG will, therefore, face competition from each of these energy sources.

Sempra LNG competes with other companies to construct and operate LNG receiving terminals and to purchase LNG. According to the FERC, as of December 31, 2009, there were 15 existing and operating LNG receipt terminals in North America. There are 3 LNG receipt terminals currently under construction. In addition, as of December 31, 2009, there were 63 LNG receipt terminals in 18 countries. There are also other proposed LNG receipt terminals worldwide with which Sempra LNG will compete to be the most economical delivery point for LNG supply of both long-term contracted and spot volumes.

Sempra LNG's major domestic and international competitors include the following companies and their related LNG affiliates:

§ Cheniere Energy, Inc.

§ Cheniere Energy Partners, L.P.

§ Exceleerate Energy, LLC

§ Dominion Resources, Inc.

§ GDF Suez S.A.

§ Southern Union Company

§ El Paso Corporation

§ Royal Dutch Shell plc

§ Eni, S.p.A.

§ OAO Gazprom

§ Chevron Corporation

§ Statoil A.S.A.

ENVIRONMENTAL MATTERS

We discuss environmental issues affecting us in Notes 15, 16 and 17 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 Sempra 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 Sempra 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, 2009, we had accrued estimated remaining investigation and remediation liabilities of \$1.5 million at SDG&E and \$27.9 million at SoCalGas, both related to hazardous waste sites for which the Hazardous Waste Collaborative mechanism authorizes us to recover 90 percent of the costs. The accruals include costs for numerous locations, most of which had been manufactured-gas plants. This estimated cost

excludes remediation costs of \$5.9 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 our consolidated results of operations or financial position.

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 transmission and distribution of natural gas require the operation of compressor stations, which are subject to increasingly stringent air-quality standards, such as those established by the CARB. We discuss these standards in "Government Regulation – California Utility Regulation" above. The Sempra 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 to mitigate the environmental damage to the marine environment attributed to the cooling-water discharge from SONGS. SDG&E's share of the mitigation costs is estimated to be \$47 million, of which \$33 million had been incurred through December 31, 2009, and \$14 million is accrued for the remaining costs through 2050. In 2008, an artificial kelp reef project was completed. The remaining costs are to complete a wetlands project and maintain both projects through 2050.

EXECUTIVE OFFICERS OF THE REGISTRANTS

Sempra Energy

Name	Age(1)	Position(1)(2)
Donald E. Felsing	62	Chairman and Chief Executive Officer
Neal E. Schmale	63	President and Chief Operating Officer
Javade Chaudhri	57	Executive Vice President and General Counsel
Jessie J. Knight, Jr. (until April 3, 2010)(2)	59	Executive Vice President – External Affairs
Debra L. Reed (effective April 3, 2010)(2)	53	Executive Vice President
Mark A. Snell	53	Executive Vice President and Chief Financial Officer
Joseph A. Householder	54	Senior Vice President, Controller and Chief Accounting Officer
Charles A. McMonagle (until July 1, 2010)(3)	60	Senior Vice President and Treasurer
G. Joyce Rowland	55	Senior Vice President – Human Resources

(1) Ages and, except as otherwise noted, positions are as of February 25, 2010.

(2) On April 3, 2010, the following organizational changes will be effective:

§ Mr. Knight will become the Chief Executive Officer of SDG&E and relinquish his position as Executive Vice President – External Affairs of Sempra Energy.

§ Ms. Reed will become an Executive Vice President of Sempra Energy and relinquish her positions with SDG&E, PE and SoCalGas.

(3) Mr. McMonagle will retire effective July 1, 2010.

Each officer has been an officer of Sempra Energy or its subsidiaries for more than the last five years, except for Mr. Knight. Prior to joining Sempra Energy in 2006, Mr. Knight was the President and Chief Executive Officer of the San Diego Regional Chamber of Commerce since 1999.

SDG&E, PE and SoCalGas

Name	Age(1)	Position(1)(2)
SAN DIEGO GAS & ELECTRIC COMPANY		
Debra L. Reed (until April 3, 2010)(2)	53	Chairperson, President and Chief Executive Officer
Jessie J. Knight, Jr. (effective April 3, 2010)(2)	59	Chief Executive Officer
Michael R. Niggli	60	Chief Operating Officer
Michael R. Niggli (effective April 3, 2010)(2)	60	President and Chief Operating Officer
James P. Avery	53	Senior Vice President – Power Supply
J. Chris Baker	50	Senior Vice President and Chief Information Officer
Lee Schavrien (until April 3, 2010)(2)	55	Senior Vice President – Regulatory and Finance
Lee Schavrien (effective April 3, 2010)(2)	55	Senior Vice President – Finance, Regulatory and Legislative Affairs
Anne S. Smith (until April 3, 2010)(2)	56	Senior Vice President – Customer Services
W. Davis Smith (until April 3, 2010)(2)	60	Senior Vice President and General Counsel
W. Davis Smith (effective April 3, 2010)(2)	60	Vice President and General Counsel
Lee M. Stewart (until April 3, 2010)(2)	64	Senior Vice President – Gas Operations
Robert M. Schlax	54	Vice President, Controller, Chief Financial Officer and Chief Accounting Officer

PACIFIC ENTERPRISES

Debra L. Reed (until April 3, 2010)(2)	53	Chairperson, President and Chief Executive Officer
Michael W. Allman (effective April 3, 2010)(2)	49	President and Chief Executive Officer
Michael R. Niggli (until April 3, 2010)(2)	60	Chief Operating Officer
Anne S. Smith (effective April 3, 2010)(2)	56	Chief Operating Officer
Robert M. Schlax(3)	54	Vice President, Controller, Chief Financial Officer and Chief Accounting Officer

SOUTHERN CALIFORNIA GAS COMPANY

Debra L. Reed (until April 3, 2010)(2)	53	Chairperson, President and Chief Executive Officer
Michael W. Allman (effective April 3, 2010)(2)	49	President and Chief Executive Officer
Michael R. Niggli (until April 3, 2010)(2)	60	Chief Operating Officer
Anne S. Smith (effective April 3, 2010)(2)	56	Chief Operating Officer
J. Chris Baker	50	Senior Vice President and Chief Information Officer
Michael Gallagher (effective May 1, 2010)(4)	45	Senior Vice President – Operations
Lee Schavrien (until April 3, 2010)(2)	55	Senior Vice President – Regulatory and Finance
Lee Schavrien (effective April 3, 2010)(2)	55	Senior Vice President – Finance, Regulatory and Legislative Affairs
Anne S. Smith (until April 3, 2010)(2)	56	Senior Vice President – Customer Services
W. Davis Smith (until April 3, 2010)(2)	60	Senior Vice President and General Counsel
Lee M. Stewart(2)(5)	64	Senior Vice President – Gas Operations
Robert M. Schlax(3)	54	Vice President Controller, Chief Financial Officer and Chief Accounting Officer

(1) Ages and, except as otherwise noted, positions are as of February 25, 2010.

(2) On April 3, 2010, the following organizational changes will be effective:

- Ms. Reed will become an Executive Vice President of Sempra Energy and relinquish her positions with SDG&E, PE and SoCalGas.
- Mr. Knight will become the Chief Executive Officer of SDG&E and relinquish his position as Executive Vice President – External Affairs of Sempra Energy.
- Mr. Niggli will become the President and remain the Chief Operating Officer of SDG&E and relinquish his positions with PE and SoCalGas.
- Mr. Schavrien will become the Senior Vice President – Finance, Regulatory and Legislative Affairs of SDG&E and SoCalGas.
- Ms. Smith will become the Chief Operating Officer of PE and SoCalGas and relinquish her Senior Vice President positions with SDG&E and SoCalGas.
- Mr. Smith will become Vice President and General Counsel of SDG&E and relinquish his positions with SoCalGas.
- Mr. Allman will become the President and Chief Executive Officer of PE and SoCalGas and relinquish his position as Vice President of Sempra Energy.
- Mr. Stewart will remain the Senior Vice President – Gas Operations of SoCalGas and relinquish his position with SDG&E.

(3) Mr. Schlax will remain the Vice President, Controller, Chief Financial Officer and Chief Accounting Officer of SDG&E and relinquish his positions with PE and SoCalGas at a date yet to be determined.

(4) Mr. Gallagher will become the Senior Vice President – Operations of SoCalGas effective May 1, 2010.

(5) Mr. Stewart will retire from SoCalGas in late 2010.

Each executive officer of SDG&E, PE and SoCalGas has been an officer or employee of Sempra Energy or its subsidiaries for more than the last five years, except for Messrs. Knight, Schlax and Gallagher. Prior to joining Sempra Energy in 2006, Mr. Knight was the President and Chief Executive Officer of the San Diego Regional Chamber of Commerce since 1999. Prior to joining SDG&E in 2005, Mr. Schlax was Chief Financial Officer, Treasurer and Vice President of Finance of Mercury Air Group, Inc. since 2002. Prior to joining Sempra Energy in 2006, from 1999 through 2006, Mr. Gallagher was a partner and director of Sterling Energy Operations, LLC, which provides management consulting services to electric/power companies.

OTHER MATTERS

Employees of Registrants

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

	December 31,	
	2009	2008
Sempra Energy Consolidated	13,839	13,673
SDG&E	5,067	4,833
SoCalGas	7,136	7,188

Labor Relations

Field, technical and most clerical employees at SoCalGas are represented by the Utility Workers Union of America or the International Chemical Workers Union Council. The collective bargaining agreement for these employees covering wages, hours, working conditions, and medical and other benefit plans expires on September 30, 2011.

Field employees and some clerical and technical employees at SDG&E are represented by the International Brotherhood of Electrical Workers. The collective bargaining agreement for these employees covering wages, hours and working conditions is in effect through August 31, 2011. For these same employees, the agreement covering pension and savings plan benefits is in effect through December 4, 2010, and the agreement covering health and welfare benefits is in effect through December 31, 2011.

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 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. Other risks and uncertainties, in addition to those that are described below, may also impair our business operations. If any of the following occurs, our business, cash flows, results of operations and financial condition could be seriously harmed. In addition, the trading price of our securities could 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 Notes to Consolidated Financial Statements and in

"Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

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

Sempra Energy's ability to pay dividends and meet its debt obligations depends 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 capital expenditures and long-term debt obligations. In addition, the subsidiaries are separate and distinct legal entities and could be precluded from making such distributions under certain circumstances, including as a result of legislation or regulation or in times of financial distress.

Our businesses may be adversely affected by conditions in the financial markets and economic conditions generally.

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 recently experienced a period 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 proposals for further intervention and additional regulation.

Limitations on the availability of credit and increases in interest rates or credit spreads may adversely affect our liquidity and results of operations. 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 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 businesses could be adversely affected and any reduction in Sempra Energy's ratings could adversely affect its non-utility subsidiaries.

Risks Related to All Sempra Energy Subsidiaries

Our businesses are subject to complex government regulations and may be 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 may be revised or reinterpreted, and new laws and regulations may be adopted or become applicable to us and our facilities. Our business is subject to increasingly complex accounting and tax requirements, and the laws and regulations 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 affect our tax expense. Future changes in laws and regulations may have a detrimental effect on our business, cash flows, financial condition and results of operations.

Our operations are subject to rules relating to transactions among the Sempra Utilities and other Sempra Energy operations. These rules are commonly referred to as the Affiliate Transaction Rules. These businesses could be 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 Sempra 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 Sempra Utilities. Any such restrictions or approval requirements could adversely affect the LNG receiving terminals, natural gas pipelines, electric generation facilities, or trading operations of our subsidiaries.

Sempra Generation has various proceedings, inquiries and investigations relating to its business activities currently pending before the FERC. A description of such proceedings, inquiries and investigations is provided in Note 17 of the Notes to Consolidated Financial Statements in the Annual Report.

Our businesses require numerous permits and other governmental approvals from various federal, state, local and foreign governmental agencies; any failure to obtain or maintain required permits or approvals could cause our sales to decline and/or our costs to increase.

All of our existing and planned development projects require multiple permits. The acquisition, ownership and operation of LNG receiving terminals, natural gas pipelines and storage facilities, and electric generation facilities require numerous permits, approvals and certificates 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. If there is a delay in obtaining any required regulatory approvals or if we fail to obtain or maintain any required approvals or to comply with any applicable laws or regulations, we may not be able to operate our facilities, or we may be forced to incur additional costs.

Our businesses have significant environmental compliance costs, and future environmental compliance costs could adversely affect our profitability.

We are subject to extensive federal, state, local and foreign statutes, rules and regulations relating to environmental protection, including, in particular, climate change and GHG emissions. We are required to obtain numerous governmental permits, licenses 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. If we fail to comply with applicable environmental laws, we may be subject to penalties, fines and/or curtailments of our 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 effects on our operations, operating costs, and the scope and economics of proposed expansion. 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 limit or otherwise adversely affect our operations. The implementation of recent California legislation and proposed federal legislation and regulation may adversely affect our unregulated businesses by imposing additional costs associated with emission limits, controls and the possible requirement of carbon taxes or the purchase of emissions credits. Similarly, the Sempra Utilities may be affected if costs are not recoverable in rates. 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. In addition, SDG&E may be subject to penalties 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 adversely affect us. Moreover, existing rules and regulations may be interpreted or revised in ways that may adversely affect us and our facilities and operations.

We provide further discussion of these matters in Notes 15, 16 and 17 of the Notes to Consolidated Financial Statements in the Annual Report.

Natural disasters, catastrophic accidents or acts of terrorism could materially adversely affect our business, earnings and cash flows.

Like other major industrial facilities, ours may be damaged by natural disasters, catastrophic accidents, or acts of terrorism. Such facilities include

- § generation
- § chartered LNG tankers
- § electric transmission and distribution
- § natural gas pipelines and storage
- § LNG receipt terminals and storage

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

Depending on the nature and location of the facilities affected, any such incident also could cause fires, leaks, explosions, spills or other significant damage to natural resources or property belonging to third parties, or cause personal injuries. Any of these consequences could lead to significant claims against us. Insurance coverage may 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 financial condition, earnings and cash flows.

Our future results of operations, financial condition, and 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. We have spent, and continue to spend, substantial amounts defending these lawsuits, and in related investigations and regulatory proceedings. In particular, SDG&E is subject to numerous lawsuits arising out of San Diego County wildfires in 2007, and Sempra Generation is subject to extensive litigation regarding a major long-term power agreement. We discuss these and other litigation in Note 17 of the Notes to Consolidated Financial Statements in the Annual Report. The uncertainties inherent in 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 an increasing 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 could materially adversely affect our business, cash flows, results of operations and financial condition.

We discuss these proceedings in Note 17 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.

Risks Related to the Sempra Utilities

The Sempra Utilities are subject to extensive regulation by state, federal and local legislative and regulatory authorities, which may adversely affect the operations, performance and growth of their businesses.

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

§ conditions of service	§ rates of depreciation
§ capital structure	§ long-term resource procurement
§ rates of return	§ 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 and penalties that could adversely affect earnings and cash flows. We discuss various CPUC proceedings relating to the Sempra Utilities' rates, costs, incentive mechanisms, and performance-based regulation in Notes 15 and 16 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 Sempra Utilities may spend funds related to a major capital project prior to receiving regulatory approval. If the project does not receive regulatory approval or if management decides not to proceed with the project, they may not be able to recover all amounts spent for that project, which could adversely affect earnings and cash flows.

The CPUC periodically approves the Sempra Utilities' rates based on authorized capital expenditures, operating costs and an authorized rate of return on investment. If actual capital expenditures and operating costs were to exceed the amount approved by the CPUC, earnings and cash flows could be adversely affected.

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 to increase earnings. At the Sempra Utilities, the areas that are eligible for incentives are operational activities such as employee safety, energy efficiency programs and, at SoCalGas, natural gas procurement and unbundled natural gas storage and system operator hub services. Although the Sempra 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 Sempra Utilities fail to achieve certain minimum performance levels established under such mechanisms, they may be assessed financial disallowances or penalties which could negatively affect earnings and 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 transmission investments, and other similar matters involving SDG&E.

The Sempra Utilities may be 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 additional expenses.

The construction and expansion of the Sempra Utilities' natural gas pipelines, SoCalGas' storage facilities, and SDG&E's electric transmission and distribution facilities require numerous permits and approvals from federal, state and local governmental agencies. If there are delays in obtaining required approvals, or failure to obtain or maintain required approvals, or to comply with applicable laws

or regulations, the Sempra Utilities' business, cash flows, results of operations and financial condition could be materially adversely affected.

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

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. The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. SDG&E's ownership interest in SONGS subjects it to the risks of nuclear generation, which include

§ the potential harmful effects on the environment and human health resulting from the 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 nuclear operations; and

§ uncertainties with respect to the technological and financial aspects of replacing steam generators or other equipment, and the decommissioning of nuclear plants.

Risks Related to our Electric Generation, LNG, Pipelines & Storage, Commodities Marketing and Other Businesses

Our businesses are exposed to market risk, and our financial condition, results of operations, cash flows and liquidity may be adversely affected by fluctuations in commodity market prices that are beyond our control.

Sempra Generation generates electricity that it sells under long-term contracts and into the spot market or other competitive markets. It purchases natural gas to fuel its power plants and may also purchase electricity in the open market to satisfy its contractual obligations. As part of its risk management strategy, Sempra Generation may hedge a substantial portion of its electricity sales and natural gas purchases to manage its portfolio.

We buy energy-related and other commodities from time to time, for power plants or for LNG receipt 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 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 through purchase or sale commitments or other hedging transactions.

Unanticipated changes in market prices for energy-related and other 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 the Organization of the Petroleum Exporting Countries with respect to the 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 an adverse effect on our sales and results of operations.

Business development activities may not be successful and projects under construction may not commence operation as scheduled, which could increase our costs and impair our ability to recover our investments.

The acquisition, development, construction and expansion of LNG receiving terminals, natural gas pipelines and storage facilities, electric generation 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
- § receipt of required governmental permits
- § timely implementation and satisfactory completion of construction

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

- § unforeseen engineering problems
- § construction delays and contractor performance shortfalls
- § work stoppages
- § equipment supply
- § adverse weather conditions
- § environmental and geological conditions
- § other factors

If we are unable to complete the development of a facility, we typically will not be able to recover our investment in the project.

The operation of existing and future facilities also involves many risks, including the breakdown or failure of generation or regasification and storage facilities or other equipment or processes, labor disputes, fuel interruption, and operating performance below expected levels. In addition, weather-related incidents and other natural disasters can disrupt generation, regasification, storage and transmission systems. The occurrence of any of these events could lead to operating facilities below expected capacity levels, which may result in lost revenues or increased expenses, including higher maintenance costs and penalties. Such occurrences could adversely affect our business, cash flows and results of operations.

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

businesses to increased competition.

The electric generation and wholesale power sales industries have become 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, such as the 10-year power sales agreement between Sempra Generation and the DWR that expires in 2011, our sales may be subject to increased price volatility. As a result, we may be unable to sell the power generated by Sempra Generation's facilities or operate those facilities profitably.

Sempra LNG utilizes its receipt terminals by entering into long-term capacity agreements. Under these agreements, customers pay Sempra LNG capacity reservation fees to receive, store and regasify the customer's LNG. Sempra LNG also may enter into short-term and/or long-term supply agreements to purchase LNG to be received, stored and regasified at its 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 price market price indices. However, if Sempra LNG is unable to obtain sufficient long-term agreements or if the counterparties, customers or suppliers to one or more of the key agreements for the LNG facilities were to fail or become unable to meet their contractual obligations on a timely basis, it could have a material adverse effect on our business, results of operations, cash flows and financial condition. In addition, reduced availability of LNG to the United States and Mexico due to inadequate supplies, increased demand and higher prices in other countries, abundant domestic supplies of natural gas and delays in the development of new liquefaction capacity could affect the timing of development of new LNG facilities and expansion of our existing LNG facilities. These conditions also are likely to delay attainment of full-capacity utilization at our facilities. 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 Pipelines & Storage's natural gas pipeline operations are dependent on supplies of LNG and/or natural gas from their transportation customers, which may include Sempra LNG facilities.

We provide information about these matters in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 17 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 perform, we could incur substantial expenses and be exposed to commodity price risk and volatility, which could adversely affect our liquidity, cash flows and results of operations.

We 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 under such agreements. Should they fail to

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, 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 LNG's obligations and those of its 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.

If California's DWR were to succeed in setting aside, or were to fail to perform its obligations under its long-term power contract with Sempra Generation, our business, results of operations and cash flows will be materially adversely affected.

In 2001, Sempra Generation entered into a 10-year power sales agreement with the DWR to supply up to 1,900 MW to the state. The power sales agreement with the DWR continues to be the subject of extensive litigation between the parties before the FERC, in the courts and in arbitration proceedings. If the DWR were to succeed in setting aside its obligations under the contract, or if the DWR fails or is unable to meet its contractual obligations on a timely basis, it could have a material adverse effect on our business, results of operations, cash flows and financial condition. These proceedings are described in the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report. As described in Note 17 of the Notes to Consolidated Financial Statements, we unilaterally reduced our price to the DWR in connection with an agreement to settle other litigation.

We rely on transportation assets and services that 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:

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

Sempra Pipelines & Storage also depends on natural gas pipelines to interconnect with their ultimate source or customers of the commodities they are transporting. Sempra LNG also relies on specialized ships to transport LNG to its facilities and on natural gas pipelines to transport natural gas for customers of the facilities. If transportation is disrupted, or if capacity is inadequate, our ability to sell and deliver our products and services may be hindered. As a result, we may be responsible for damages incurred by our customers, such as the additional cost of acquiring alternative natural gas supplies at then-current spot market rates.

We cannot and do not attempt to fully hedge our assets or contract positions against changes in commodity prices. Our hedging procedures may not work 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 business, results of operations, cash flows and financial condition.

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 the companies 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 negatively affect our business, results of operations, cash flows and financial condition.

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

We have interests in electricity generation and transmission, natural gas distribution and transportation, and LNG terminal projects in Mexico. Sempra Pipelines & Storage has ownership interests in electricity and natural gas distribution businesses in Argentina, Chile and Peru. We have an ownership interest in RBS Sempra Commodities, which has trading, marketing and risk management operations in Canada, Europe and Asia. Developing infrastructure projects, owning energy assets, and operating businesses in foreign jurisdictions subject us to significant political, legal 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 related to foreign operations

- § high rates of inflation

- § 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, difficulty in enforcing contractual rights, and unsettled property rights and titles in Mexico and other foreign jurisdictions

- § general political, 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 reduce the amount of cash and income received from those foreign subsidiaries. Fluctuations in foreign currency exchange and inflation rates may result in increased taxes in foreign countries. While Sempra Pipelines & Storage believes that it has contracts and other measures in place to mitigate its most significant foreign currency exchange risks, some exposure is not fully mitigated.

Other Risks

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

Sempra Energy is a partner with RBS in RBS Sempra Commodities, a commodities-marketing firm in which we invested \$1.6 billion. RBS, which has been greatly affected by the world-wide turmoil in banking and is now indirectly controlled by the government of the United Kingdom, is obligated to provide all of the additional capital required for the operation and expansion of the commodities-marketing business. As we discuss above under “Description of Business,” on February 16, 2010, Sempra Energy, RBS and RBS Sempra Commodities entered into an agreement to sell certain businesses within the joint venture.

We also own a 25-percent interest in Rockies Express Pipeline LLC (Rockies Express), a joint venture which completed construction in 2009 of a 1,679-mile natural gas pipeline at an estimated cost of approximately \$6.8 billion. Rockies Express is controlled by Kinder Morgan Energy Partners, which holds a 50-percent interest.

We have also guaranteed a portion of the debt and other obligations of RBS Sempra Commodities and debt of Rockies Express as we discuss in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report. We also have smaller investments in other entities that we do not control or manage.

We do not control and have limited influence over these businesses and their management. 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 position and cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

ELECTRIC PROPERTIES – SDG&E

At December 31, 2009, SDG&E owns and operates three natural gas-fired power plants:

1. a 560-MW electric generation facility (the Palomar generation facility) in Escondido, California
2. a 47.6-MW electric generation peaking facility (the Miramar I generation facility) in San Diego, California
3. a 48.6-MW electric generation peaking facility (the Miramar II generation facility) in San Diego, California

SDG&E has exercised its option to purchase the 480-MW El Dorado natural gas-fired power plant located in Boulder City, Nevada from Sempra Generation in 2011.

SDG&E's interest in SONGS is described above in "Electric Utility Operations – SONGS."

At December 31, 2009, 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. The facilities consist of 1,920 miles of transmission lines and 22,297 miles of distribution lines. Periodically, various areas of the service territory require expansion to accommodate customer growth.

NATURAL GAS PROPERTIES – SEMPRA UTILITIES

At December 31, 2009, SDG&E's natural gas facilities, which are located in San Diego and Riverside counties of California, consisted of the Moreno and Rainbow compressor stations, 168 miles of transmission pipelines, 8,419 miles of distribution mains and 6,342 miles of service lines.

At December 31, 2009, SoCalGas' natural gas facilities included 2,899 miles of transmission and storage pipelines, 49,595 miles of distribution pipelines and 47,256 miles of service pipelines. They also included 11 transmission compressor stations and 4 underground natural gas storage reservoirs with a combined working capacity of 133.4 billion cubic feet (Bcf).

ENERGY PROPERTIES – SEMPRA GLOBAL

At December 31, 2009, Sempra Generation operates or owns interests in power plants in Arizona, California, Nevada, Indiana, Hawaii and Mexico with a total capacity of 2,740 MW. We provide additional information in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 3 and 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Generation leases or owns property in Arizona, Nevada, Hawaii and Mexico for potential development of solar and wind electric generation facilities.

At December 31, 2009, Sempra Pipelines & Storage's operations in Mexico included 1,858 miles of distribution pipelines, 216 miles of transmission pipelines and 2 compressor stations.

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

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

In Washington County, Alabama, Sempra Pipelines & Storage operates an 11.4 Bcf natural gas storage facility under a land lease, with plans to expand total working capacity to 27 Bcf. Sempra Pipelines & Storage also

owns land in Simpson County, Mississippi,

with plans to develop natural gas storage with a working capacity of 30 Bcf. Portions of both these properties are currently under construction.

Sempra LNG operates its Energía Costa Azul LNG receipt terminal on land it owns in Baja California, Mexico and has a land lease in Hackberry, Louisiana, where it operates its Cameron LNG receipt terminal. Sempra LNG 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. The lease has two five-year renewal options.

SoCalGas leases approximately half of a 52-story office building in downtown Los Angeles, California, pursuant to an operating lease expiring in 2011. The lease has six 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 2017. One lease has four five-year renewal options and the other lease has three five-year renewal options.

Sempra Global leases office facilities at various locations in the U.S. and Mexico with the leases ending from 2010 to 2035.

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 in the conduct of their business.

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 15, 16 and 17 of the Notes to Consolidated Financial Statements, or 2) referred to in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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.

PERFORMANCE GRAPH -- COMPARATIVE TOTAL SHAREHOLDER RETURNS

The performance graph required by Item 5 is provided in "Performance Graph – Comparative Total Shareholder Returns" in the Annual Report.

SEMPRA ENERGY EQUITY COMPENSATION PLANS

Sempra Energy has long term incentive plans that permit the grant of a wide variety of equity and equity-based incentive awards to directors, officers and key employees. At December 31, 2009, outstanding awards consisted of stock options, restricted stock, and restricted stock units held by 328 employees.

The following table sets forth information regarding our equity compensation plans at December 31, 2009.

	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	Number of additional shares remaining available for future issuance
Equity compensation plans approved by shareholders:			
2008 Long Term Incentive Plan	5,898,447	\$ 40.81	5,168,042 (B)
Equity compensation plans not approved by shareholders:			
2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals (C)	18,900	\$ 43.75	253,878 (D)
Total	5,917,347	\$ 40.93	5,421,920

(A) Consists solely of 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.

(B) The number of shares available for future issuance is increased by the number of shares withheld to satisfy related tax withholding obligations relating to stock option and other plan awards and by the number of shares subject to awards that lapse, expire or are otherwise terminated or are settled other than by the issuance of shares.

(C) Adopted in connection with our acquisition of EnergySouth in October 2008 to utilize shares remaining available under the 2008 Incentive Plan of EnergySouth, Inc., which had been previously approved by EnergySouth shareholders.

(D) The number of shares available for future issuance is increased by the number of shares subject to awards that terminate without the issuance of shares.

We provide additional discussion of share-based compensation in Note 10 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 purposes 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. We discuss this repurchase in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

We have remaining authority to expend up to the greater of up to \$1 billion or amounts required to repurchase approximately 21.5 million shares under our board of directors' 2007 share repurchase authorization. In addition, we purchase shares of our common stock from holders of our restricted stock and restricted stock units in amounts sufficient to meet minimum statutory tax withholding requirements upon vesting. Other than such purchases, there were no purchases made by us of our common stock during the fourth quarter of 2009.

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 1 to 53.

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 69 through 198 of the Annual Report. Item 15(a)1 includes a listing of financial statements included.

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

Not applicable.

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

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 2010 annual meeting of shareholders.

SDG&E, PE AND SOCALGAS

We provide the information required by Item 10 with respect to executive officers for SDG&E, PE and SoCalGas in Part I, Item 1. Business under "Executive Officers of the Registrants – SDG&E, PE and SoCalGas." All other information required by Item 10 is incorporated by reference from the Information Statement prepared for the June 2010 annual meetings 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 2010 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2010 annual meetings of shareholders for SDG&E, PE and 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 2010 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2010 annual meetings of shareholders for SDG&E, PE and 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 2010 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2010 annual meetings of shareholders for SDG&E, PE and SoCalGas.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services, as required by Item 14, is incorporated by reference from "Proposals To Be Voted On - Proposal 2: Ratification of Independent Registered Public Accounting Firm" in the Proxy Statement prepared for the May 2010 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2010 annual meetings of shareholders for SDG&E, PE and SoCalGas.

PART IV

ITEM 15. EXHIBITS AND 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	Pacific Enterprises	Southern California Gas Company
Management's Report On Internal Control Over Financial Reporting	60	60	60	60
Reports of Independent Registered Public Accounting Firm	61	63	65	67
Consolidated Statements of Operations for the years ended December 31, 2009, 2008 and 2007	69	76	82	88
Consolidated Balance Sheets at December 31, 2009 and 2008	70	77	83	89
Statements of Consolidated Cash Flows for the years ended December 31, 2009, 2008 and 2007	72	79	85	91
Statements of Consolidated Comprehensive Income and Changes in Equity for the years ended December 31, 2009, 2008 and 2007	74	81	87	93
Notes to Consolidated Financial Statements	94	94	94	94

(1) Incorporated by reference from the indicated pages of the 2009 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 35.

Pacific Enterprises

Schedule I--Pacific Enterprises Condensed Financial Information of Parent may be found on page 39.

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.

3. EXHIBITS

See Exhibit Index on page 47 of this report.

(c) RBS Sempra Commodities LLP and Subsidiaries – Consolidated Financial Statements as of December 31, 2009 and 2008, and for the Year Ended December 31, 2009, and the Period From April 1, 2008 (Date of Commencement) to December 31, 2008, and Report of Independent Registered Public Accounting Firm are provided in Exhibit 99.1.

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. 333-153425 on Form S-3 and 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 25, 2010, 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, 2009.

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

San Diego, California
February 25, 2010

SAN DIEGO GAS & ELECTRIC COMPANY

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

We consent to the incorporation by reference in Registration Statement No. 333-133541 and 333-159046 on Form S-3 of our reports dated February 25, 2010, relating to the consolidated financial statements of San Diego Gas & Electric Company and subsidiary (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, 2009.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2010

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. 333-134289 and 333-159041 on Form S-3 of our reports dated February 25, 2010, 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, 2009.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PACIFIC ENTERPRISES

To the Board of Directors and Shareholders of Pacific Enterprises:

We have audited the consolidated financial statements of Pacific Enterprises and subsidiaries (the "Company") as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and the Company's internal control over financial reporting as of December 31, 2009, and have issued our reports thereon dated February 25, 2010; such consolidated financial statements and reports are included in your 2009 Annual Report to Shareholders and are incorporated by reference herein. Our audits 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

San Diego, California

February 25, 2010

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,		
	2009	2008	2007
Interest income	\$ 140	\$ 104	\$ 166
Interest expense	(244)	(130)	(178)
Operation and maintenance	(81)	(64)	(105)
Other income (expense), net	50	(63)	58
Income tax benefits	89	93	38
Loss before equity in earnings of subsidiaries	(46)	(60)	(21)
Equity in earnings of subsidiaries	1,165	1,173	1,120
Net income/earnings	\$ 1,119	\$ 1,113	\$ 1,099
Basic net income/earnings per common share	\$ 4.60	\$ 4.50	\$ 4.24
Weighted-average number of shares outstanding (thousands)	243,339	247,387	259,269
Diluted net income/earnings per common share	\$ 4.52	\$ 4.43	\$ 4.16
Weighted-average number of shares outstanding (thousands)	247,384	251,159	264,004

See Notes to Condensed Financial Information of Parent (Sempra Energy).

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

	December 31, 2009	December 31, 2008
Assets:		
Cash and cash equivalents	\$ 7	\$ 12
Short-term investments	-	152
Due from affiliates	133	28
Income taxes receivable	242	299
Other current assets	18	9
Total current assets	400	500
Investments in subsidiaries	10,790	9,644
Due from affiliates	2,972	2,365
Other assets	820	811
Total assets	\$ 14,982	\$ 13,320
Liabilities and shareholders' equity:		
Current portion of long-term debt	\$ 507	\$ 300
Due to affiliates	1,350	1,876
Other current liabilities	379	307
Total current liabilities	2,236	2,483
Long-term debt	3,196	2,233
Other long-term liabilities	543	635
Sempra Energy shareholders' equity	9,007	7,969
Total liabilities and shareholders' equity	\$ 14,982	\$ 13,320

See Notes to Condensed Financial Information of Parent (Sempra Energy).

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

	Years ended December 31,		
	2009	2008	2007
Net cash provided by operating activities	\$ 97	\$ 173	\$ 240
Dividends received from subsidiaries	150	350	150
Expenditures for property, plant and equipment	(1)	(4)	(13)
Expenditures for short-term investments	-	(640)	-
Proceeds from sale of short-term investments	152	488	-
Purchase of trust assets	(30)	(17)	(59)
Proceeds from sales by trust	-	2	21
Decrease (increase) in loans to affiliates, net	(1,285)	(149)	532
Other	-	-	(4)
Cash (used in) provided by investing activities	(1,014)	30	627
Common stock dividends paid	(341)	(339)	(316)
Issuances of common stock	73	18	40
Repurchases of common stock	(22)	(1,018)	(185)
Issuances of long-term debt	1,492	1,247	82
Payments on long-term debt	(314)	(11)	(990)
Increase (decrease) in loans from affiliates, net	4	(102)	59
Other	20	8	22
Cash provided by (used in) financing activities	912	(197)	(1,288)
(Decrease) increase in cash and cash equivalents	(5)	6	(421)
Cash and cash equivalents, January 1	12	6	427
Cash and cash equivalents, December 31	\$ 7	\$ 12	\$ 6

See Notes to Condensed Financial Information of Parent (Sempra Energy).

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 (Expense), Net, on the Condensed Statements of Operations includes \$55 million of gains in 2009, \$53 million of losses in 2008, and \$27 million of gains in 2007 associated with investment earnings or losses on dedicated assets in support of our executive retirement and deferred compensation plans. It also includes \$57 million from Mexican peso exchange losses in 2008.

Equity in Earnings of Subsidiaries on the Condensed Statements of Operations includes a loss of \$26 million in 2007 related to discontinued operations.

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, 2009	December 31, 2008
6.5% Notes June 1, 2016	\$ 750	\$ -
6% Notes October 15, 2039	750	-
9.8% Notes February 15, 2019	500	500
6.15% Notes June 15, 2018	500	500
6% Notes February 1, 2013	400	400
Notes at variable rates after fixed-to-floating swap (3.71% at December 31, 2009)		
March 1, 2010	300	300
8.9% Notes November 15, 2013	250	250
7.95% Notes March 1, 2010	200	200
Employee Stock Ownership Plan		
Bonds at 5.781% (fixed rate to July 1, 2010) November 1, 2014	50	50
Bonds at variable rates (1.4% at December 31, 2009) November 1, 2014	7	22
4.75% Notes May 15, 2009	-	300
Market value adjustments for interest-rate swap, net (expiring March 1, 2010)	7	15
	<u>3,714</u>	<u>2,537</u>
Current portion of long-term debt	(507)	(300)
Unamortized discount on long-term debt	(11)	(4)
Total long-term debt	<u>\$ 3,196</u>	<u>\$ 2,233</u>

Maturities of long-term debt, excluding market value adjustments for the interest-rate swap, are \$500 million in 2010, \$650 million in 2013, \$57 million in 2014 and \$2.5 billion thereafter.

Additional information on Sempra Energy's long-term debt is provided in Note 6 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 6 and 17 of the Notes to Consolidated Financial Statements in the Annual Report.

SCHEDULE I – PACIFIC ENTERPRISES CONDENSED FINANCIAL INFORMATION OF PARENT

PACIFIC ENTERPRISES					
CONDENSED STATEMENTS OF OPERATIONS					
<i>(Dollars in millions)</i>					
	Years ended December 31,				
	2009	2008	2007		
Interest and other income	\$	1	\$	11	\$ 23
Expenses, interest and income taxes		(9)		(7)	(15)
Income (loss) before equity in earnings of subsidiaries		(8)		4	8
Equity in earnings of subsidiaries		273		244	230
Net income/earnings attributable to common shares	\$	265	\$	248	\$ 238

See Notes to Condensed Financial Information of Parent (Pacific Enterprises).

PACIFIC ENTERPRISES
CONDENSED BALANCE SHEETS

(Dollars in millions)

	December 31, 2009	December 31, 2008
Assets:		
Current assets	\$ 7	\$ 72
Investment in subsidiary	1,745	1,470
Due from affiliates, long-term	513	457
Deferred charges and other assets	35	37
Total assets	<u>\$ 2,300</u>	<u>\$ 2,036</u>
Liabilities and shareholders' equity:		
Due to affiliates	\$ 84	\$ 84
Other current liabilities	4	1
Total current liabilities	<u>88</u>	<u>85</u>
Long-term liabilities	<u>4</u>	<u>11</u>
Equity:		
Preferred stock	80	80
Common equity	<u>2,128</u>	<u>1,860</u>
Total Pacific Enterprises shareholders' equity	<u>2,208</u>	<u>1,940</u>
Total liabilities and shareholders' equity	<u>\$ 2,300</u>	<u>\$ 2,036</u>

See Notes to Condensed Financial Information of Parent (Pacific Enterprises).

PACIFIC ENTERPRISES
CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
Net cash provided by (used in) operating activities	\$ (7)	\$ 5	\$ 14
Dividends received from subsidiaries	-	350	150
Decrease (increase) in loans to affiliates, net	12	(1)	(9)
Other	(1)	-	(1)
Cash provided by investing activities	11	349	140
Common stock dividends paid	-	(350)	(150)
Preferred dividends paid	(4)	(4)	(4)
Cash used in financing activities	(4)	(354)	(154)
Net change in cash and cash equivalents	-	-	-
Cash and cash equivalents, January 1	-	-	-
Cash and cash equivalents, December 31	\$ -	\$ -	\$ -

See Notes to Condensed Financial Information of Parent (Pacific Enterprises).

PACIFIC ENTERPRISES

NOTES TO CONDENSED FINANCIAL INFORMATION OF PARENT

Note 1. Basis of Presentation

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

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

Note 2. Commitments and Contingencies

For contingencies related to Pacific Enterprises, refer to Note 17 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/ Donald E. Felsing

Donald E. Felsing
Chairman and Chief Executive Officer

Date: February 25, 2010

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

<u>Name/Title</u>	<u>Signature</u>	<u>Date</u>
Principal Executive Officer: Donald E. Felsing Chairman and Chief Executive Officer	<u>/s/ Donald E. Felsing</u>	February 25, 2010
Principal Financial Officer: Mark A. Snell Executive Vice President and Chief Financial Officer	<u>/s/ Mark A. Snell</u>	February 25, 2010
Principal Accounting Officer: Joseph A. Householder Senior Vice President, Controller and Chief Accounting Officer	<u>/s/ Joseph A. Householder</u>	February 25, 2010
Directors: Donald E. Felsing, Chairman	<u>/s/ Donald E. Felsing</u>	February 25, 2010
James G. Brocksmith, Jr., Director	<u>/s/ James G. Brocksmith, Jr.</u>	February 25, 2010
Richard A. Collato, Director	<u>/s/ Richard A. Collato</u>	February 25, 2010
Wilford D. Godbold, Jr., Director	<u>/s/ Wilford D. Godbold, Jr.</u>	February 25, 2010
William D. Jones, Director	<u>/s/ William D. Jones</u>	February 25, 2010
Richard G. Newman, Director	<u>/s/ Richard G. Newman</u>	February 25, 2010
William G. Ouchi, Ph.D., Director	<u>/s/ William G. Ouchi</u>	February 25, 2010
Carlos Ruiz, Director	<u>/s/ Carlos Ruiz</u>	February 25, 2010

William C. Rusnack, Director

/s/ William C. Rusnack

February 25, 2010

William P. Rutledge, Director

/s/ William P. Rutledge

February 25, 2010

Lynn Schenk, Director

/s/ Lynn Schenk

February 25, 2010

Neal E. Schmale, Director

/s/ Neal E. Schmale

February 25, 2010

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/ Debra L. Reed

Debra L. Reed

Chairperson, President and Chief Executive Officer

Date: February 25, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is 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 Chairperson, President and Chief Executive Officer	<u>/s/ Debra L. Reed</u>	February 25, 2010
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 25, 2010
Directors: Debra L. Reed, Chairperson	<u>/s/ Debra L. Reed</u>	February 25, 2010
Michael R. Niggli, Director	<u>/s/ Michael R. Niggli</u>	February 25, 2010

Pacific Enterprises:

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.

PACIFIC ENTERPRISES,
(Registrant)

By: /s/ Debra L. Reed

Debra L. Reed
Chairperson, President and Chief Executive Officer

Date: February 25, 2010

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

<u>Name/Title</u>	<u>Signature</u>	<u>Date</u>
Principal Executive Officer: Debra L. Reed Chairperson, President and Chief Executive Officer	<u>/s/ Debra L. Reed</u>	February 25, 2010
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 25, 2010
Directors: Debra L. Reed, Chairperson	<u>/s/ Debra L. Reed</u>	February 25, 2010
Michael R. Niggli, Director	<u>/s/ Michael R. Niggli</u>	February 25, 2010

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/ Debra L. Reed

Debra L. Reed
Chairperson, President and Chief Executive Officer

Date: February 25, 2010

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

<u>Name/Title</u>	<u>Signature</u>	<u>Date</u>
Principal Executive Officer: Debra L. Reed Chairperson, President and Chief Executive Officer	<u>/s/ Debra L. Reed</u>	February 25, 2010
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 25, 2010
Directors: Debra L. Reed, Chairperson	<u>/s/ Debra L. Reed</u>	February 25, 2010
Michael R. Niggli, Director	<u>/s/ Michael R. Niggli</u>	February 25, 2010

EXHIBIT INDEX

The Registration Statements and Forms S-8, 8-K, 10-K and 10-Q incorporated herein by reference were filed under Commission File Number 1-14201 (Sempra Energy), Commission File Number 1-40 (Pacific Enterprises/Pacific Lighting Corporation), Commission File Number 1-3779 (San Diego Gas & Electric Company) and/or Commission File Number 1-1402 (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 Bylaws of Sempra Energy effective December 4, 2007 (Sempra Energy Form 8-K filed on December 5, 2007, Exhibit 3(ii)).
- 3.3 Amended and Restated Bylaws of Sempra Energy effective May 26, 1998 (Registration Statement on Form S-8 Sempra Energy Registration Statement No. 333-56161 dated June 5, 1998, Exhibit 3.2).

San Diego Gas & Electric Company

- 3.4 Amended Bylaws of San Diego Gas & Electric effective August 4, 2003 (2007 SDG&E Form 10-K, Exhibit 3.01).
- 3.5 Amended and Restated Bylaws of San Diego Gas & Electric effective May 14, 2002 (2007 SDG&E Form 10-K, Exhibit 3.02).
- 3.6 Amended and Restated Articles of Incorporation of San Diego Gas & Electric Company effective November 10, 2006 (2006 SDG&E Form 10-K, Exhibit 3.02).

Pacific Enterprises / Southern California Gas Company

- 3.7 Amended and Restated Bylaws of Pacific Enterprises effective May 12, 2002 (2007 PE Form 10-K, Exhibit 3.01).
- 3.8 Amended Bylaws of Southern California Gas Company effective August 3, 2003 (2007 SoCalGas Form 10-K, Exhibit 3.02).
- 3.9 Amended and Restated Bylaws of Southern California Gas Company effective May 14, 2002 (2007 SoCalGas Form 10-K, Exhibit 3.03).
- 3.10 Restated Articles of Incorporation of Pacific Enterprises (1996 PE Form 10-K, Exhibit 3.01).
- 3.11 Restated Articles of Incorporation of Southern California Gas Company (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).

San Diego Gas & Electric Company

- 4.2 Description of preferences of Cumulative Preferred Stock, Preference Stock (Cumulative) and Series Preference Stock (SDG&E Amended and Restated Articles of Incorporation as of November 10, 2006, Exhibit 3.6 above).

Pacific Enterprises / 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 3.11 above).

Sempra Energy / San Diego Gas & Electric Company

- 4.4 Mortgage and Deed of Trust dated July 1, 1940 (SDG&E Registration Statement No. 2-49810, Exhibit 2A).
- 4.5 Ninth Supplemental Indenture dated as of August 1, 1968 (SDG&E Registration Statement No. 2-68420, Exhibit 2D).
- 4.6 Sixteenth Supplemental Indenture dated August 28, 1975 (SDG&E Registration Statement No. 2-68420, Exhibit 2E).
- 4.7 Thirtieth Supplemental Indenture dated September 28, 1983 (SDG&E Registration Statement No. 33-34017, Exhibit 4.3).

Sempra Energy / Pacific Enterprises / Southern California Gas Company

- 4.8 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).
- 4.9 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).
- 4.10 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of June 1, 1956 (Registration Statement No. 2-12456 filed by Southern California Gas Company on April 23, 1956, Exhibit 2.08).
- 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 Manufacturers Hanover Trust Company of California, successor to Wells Fargo Bank, National Association, and Crocker National Bank as Successor Trustee dated as of May 18, 1984 (Southern California Gas Company 1984 Form 10-K, Exhibit 4.29).

EXHIBIT 10 -- MATERIAL CONTRACTS

Sempra Energy / San Diego Gas & Electric Company / Pacific Enterprises / 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 / Pacific Enterprises

- 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.

Sempra Energy

- 10.7 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)
- 10.8 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)
- 10.9 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).
- 10.10 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).

- 10.11 Second Amendment to Limited Liability Partnership Agreement, dated as of April 6, 2009 and effective as of 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.
- 10.12 Master Confirmation for Share Purchase Agreement, dated as of April 1, 2008, between Sempra Energy and Merrill Lynch International (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.4).
- 10.13 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).
- 10.14 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).
- 10.15 Energy Purchase Agreement between Sempra Energy Resources and the California Department of Water Resources, executed May 4, 2001 (2001 Sempra Energy Form 10-K, Exhibit 10.01).

Sempra Energy / San Diego Gas & Electric Company

- 10.16 Amended and Restated Operating Agreement between San Diego Gas & Electric and the California Department of Water Resources dated November 12, 2004.
- 10.17 Amended and Restated Servicing Agreement between San Diego Gas & Electric and the California Department of Water Resources effective March 15, 2007.

Compensation

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

- 10.18 Form of 2009 Sempra Energy Severance Pay Agreement.
- 10.19 Form of Sempra Energy 2008 Long Term Incentive Plan, 2009 Performance-Based Restricted Stock Unit Award (March 31, 2009 Sempra Energy Form 10-Q, Exhibit 10.1).
- 10.20 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).
- 10.21 Sempra Energy 2008 Long Term Incentive Plan (Appendix A to the 2008 Sempra Energy Definitive Proxy Statement, filed on April 15, 2008).
- 10.22 Form of Indemnification Agreement with Directors and Executive Officers (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.2).
- 10.23 Form of Sempra Energy 2008 Long Term Incentive Plan, 2008 Performance-Based Restricted Stock Unit Award (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.3).
- 10.24 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).
- 10.25 Sempra Energy Amended and Restated Executive Life Insurance Plan (2008 Sempra Energy Form 10-K, Exhibit 10.15).
- 10.26 Amendment and Restatement of the Sempra Energy Cash Balance Restoration Plan (2008 Sempra Energy Form 10-K, Exhibit 10.16).

- 10.27 Form of Amended and Restated Sempra Energy Severance Pay Agreement (2008 Sempra Energy Form 10-K, Exhibit 10.17).
- 10.28 Amendment and Restatement of the Sempra Energy 2005 Deferred Compensation Plan (2008 Sempra Energy Form 10-K, Exhibit 10.18).
- 10.29 Amendment and Restatement of the Sempra Energy Supplemental Executive Retirement Plan (2008 Sempra Energy Form 10-K, Exhibit 10.19).
- 10.30 Sempra Energy Executive Personal Financial Planning Program Policy Document (September 30, 2004 Sempra Energy Form 10-Q, Exhibit 10.11).
- 10.31 2003 Sempra Energy Executive Incentive Plan B (2003 Sempra Energy Form 10-K, Exhibit 10.10).
- 10.32 Sempra Energy Executive Incentive Plan effective January 1, 2003 (2002 Sempra Energy Form 10-K, Exhibit 10.09).
- 10.33 Amended and Restated Sempra Energy Deferred Compensation and Excess Savings Plan (September 30, 2002 Sempra Energy Form 10-Q, Exhibit 10.3).
- 10.34 Sempra Energy Employee Stock Ownership Plan and Trust Agreement effective January 1, 2001 (September 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.1).
- 10.35 Amendment to the Amended and Restated Sempra Energy Deferred Compensation and Excess Savings Plan (2008 Sempra Energy Form 10-K, Exhibit 10.25).
- 10.36 Sempra Energy Amended and Restated Executive Medical Plan. (2008 Sempra Energy Form 10-K, Exhibit 10.26).
- 10.37 Form of Sempra Energy 1998 Long Term Incentive Plan, 2008 Performance-Based Restricted Stock Unit Award (2007 Sempra Energy Form 10-K, Exhibit 10.09).
- 10.38 Form of Sempra Energy 1998 Long Term Incentive Plan, 2008 Non-Qualified Stock Option Agreement (2007 Sempra Energy Form 10-K, Exhibit 10.10).
- 10.39 Amended and Restated Sempra Energy 1998 Long-Term Incentive Plan (June 30, 2003 Sempra Energy Form 10-Q, Exhibit 10.2).

Sempra Energy

- 10.40 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).
- 10.41 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).
- 10.42 Sempra Energy Amended and Restated Sempra Energy Retirement Plan for Directors (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.7).
- 10.43 Neal Schmale Restricted Stock Award Agreement (September 30, 2004 Sempra Energy Form 10-Q, Exhibit 10.8).
- 10.44 Form of Sempra Energy 1998 Non-Employee Directors' Stock Plan Non-Qualified Stock Option Agreement (2006 Sempra Energy Form 10-K, Exhibit 10.09).
- 10.45 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).

Nuclear

Sempra Energy / San Diego Gas & Electric Company

- 10.46 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).
- 10.47 Amendment No. 1 to the Qualified CPUC Decommissioning Master Trust Agreement dated September 22, 1994 (see Exhibit 10.46 above)(1994 SDG&E Form 10-K, Exhibit 10.56).
- 10.48 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 10.46 above)(1994 SDG&E Form 10-K, Exhibit 10.57).
- 10.49 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 10.46 above)(1996 SDG&E Form 10-K, Exhibit 10.59).
- 10.50 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 10.46 above)(1996 SDG&E Form 10-K, Exhibit 10.60).
- 10.51 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 10.46 above)(1999 SDG&E Form 10-K, Exhibit 10.26).
- 10.52 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 10.46 above)(1999 SDG&E Form 10-K, Exhibit 10.27).
- 10.53 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 10.46 above)(2003 Sempra Energy Form 10-K, Exhibit 10.42).
- 10.54 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).
- 10.55 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 10.54 above)(1996 SDG&E Form 10-K, Exhibit 10.62).
- 10.56 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 10.54 above)(1996 SDG&E Form 10-K, Exhibit 10.63).
- 10.57 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 10.54 above)(1999 SDG&E Form 10-K, Exhibit 10.31).
- 10.58 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 10.54 above)(1999 SDG&E Form 10-K, Exhibit 10.32).

- 10.59 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 10.54 above)(2003 Sempra Energy Form 10-K, Exhibit 10.48).
- 10.60 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).
- 10.61 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).
- 10.62 San Onofre Unit No. 1 Decommissioning Agreement between Southern California Edison Company and San Diego Gas & Electric Company dated March 23, 2000.
- 10.63 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.

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, 2009, 2008, 2007, 2006 and 2005.

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, 2009, 2008, 2007, 2006 and 2005.

Pacific Enterprises

- 12.3 Pacific Enterprises Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2009, 2008, 2007, 2006 and 2005.

Southern California Gas Company

- 12.4 Southern California Gas Company Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2009, 2008, 2007, 2006 and 2005.

EXHIBIT 13 -- ANNUAL REPORT TO SECURITY HOLDERS

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

- 13.1 Sempra Energy 2009 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

- 21.1 Sempra Energy Schedule of Significant Subsidiaries at December 31, 2009.

Pacific Enterprises

- 21.2 Pacific Enterprises Schedule of Significant Subsidiaries at December 31, 2009.

EXHIBIT 23 -- CONSENTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND REPORT ON SCHEDULE, PAGES 31 THROUGH 34.

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

Pacific Enterprises

- 31.5 Statement of Pacific Enterprise's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
- 31.6 Statement of Pacific Enterprise's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

Southern California Gas Company

- 31.7 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.
- 31.8 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's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.

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

Pacific Enterprises

32.5 Statement of Pacific Enterprise's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.

32.6 Statement of Pacific Enterprise's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

Southern California Gas Company

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

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

EXHIBIT 99 -- ADDITIONAL EXHIBITS

Sempra Energy

99.1 RBS Sempra Commodities LLP and Subsidiaries – Consolidated Financial Statements as of December 31, 2009 and 2008, and for the Year Ended December 31, 2009, and the Period From April 1, 2008 (Date of Commencement) to December 31, 2008, and Report of Independent Registered Public Accounting Firm.

EXHIBIT 101 -- INTERACTIVE DATA FILE

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

GLOSSARY

Annual Report	2009 Annual Report to Shareholders	LNG	Liquefied Natural Gas
APSC	Alabama Public Service Commission	Mobile Gas	Mobile Gas Service Corporation
Bay Gas	Bay Gas Storage Company	MW	Megawatt
Bcf	Billion Cubic Feet (of natural gas)	NRC	Nuclear Regulatory Commission
CARB	California Air Resources Board	PE	Pacific Enterprises
CEC	California Energy Commission	PGE	Portland General Electric Company
CPUC	California Public Utilities Commission	QFs	Qualifying Facilities
DOE	Department of Energy	RBS	The Royal Bank of Scotland plc
DWR	Department of Water Resources	RBS Sempra Commodities	RBS Sempra Commodities LLP
Edison	Southern California Edison Company	Rockies Express	Rockies Express Pipeline LLC
ERR	Eligible Renewable Energy Resource	RPS	Renewables Portfolio Standard
FERC	Federal Energy Regulatory Commission	SDG&E	San Diego Gas & Electric Company
GHG	Greenhouse Gas	Sempra Utilities	San Diego Gas & Electric Company and Southern California Gas Company
IOUs	Investor-Owned Utilities	SoCalGas	Southern California Gas Company
ISFSI	Independent Spent Fuel Storage Installation	SONGS	San Onofre Nuclear Generating Station
ISO	Independent System Operator	The Board	Sempra Energy's board of directors
J.P. Morgan Ventures	J.P. Morgan Ventures Energy Corporation		

**THIRD AMENDMENT
TO
INDEMNITY AGREEMENT**

THIRD AMENDMENT TO INDEMNITY AGREEMENT, dated as of December 3, 2009 ("**Third Amendment**") by and among Sempra Energy, a California corporation, Pacific Enterprises, a California corporation, Enova Corporation, a California corporation (collectively with Sempra Energy and Pacific Enterprises, the "**Sempra Indemnitees**"), and The Royal Bank of Scotland plc, a Scottish company limited by shares (the "**Indemnitor**"). Capitalized terms used herein without definition have the meanings provided in the Indemnity Agreement (as defined below).

RECITALS:

WHEREAS, the Sempra Indemnitees and the Indemnitor have entered into an Indemnity Agreement dated as of April 1, 2008 (the "**Original Indemnity Agreement**"), as amended as of March 30, 2009 (the "**First Amendment**") and as of June 30, 2009 (the "**Second Amendment**" and, together with the First Amendment and the Original Indemnity Agreement, the "**Indemnity Agreement**").

WHEREAS, pursuant to Section 7.12(b)(iii) of the Formation Agreement, the parties thereto have committed to use their commercially reasonable efforts to cause the novation (substituting the Indemnitor for the relevant Indemnified Party) or termination, to the greatest extent possible, of the outstanding Financial Assurances;

WHEREAS, as a result of certain delays in the novation process, the parties acknowledge that certain Financial Assurances, including certain of the Post-Closing Financial Assurances, continue to be outstanding as of the date of this Third Amendment; and

WHEREAS, the Indemnitor has requested, and the Sempra Indemnitees have agreed, subject to the terms hereof, to extend the Novation Deadline set forth in section 2.03 of the Indemnity Agreement;

NOW THEREFORE, the parties hereby agree as follows:

1. The first sentence of Section 2.03 of the Second Amendment shall be amended by deleting the following words: "Until December 31, 2009 (such date, the "**Novation Deadline**")" and replacing them with the following: "Until June 30, 2010 (such date, the "**Novation Deadline**")."

2. Except as expressly modified herein, the terms and provisions of the Indemnity Agreement shall remain in full force and effect and be enforceable against the parties thereto. Nothing expressed or referred to in this Third Amendment will be construed to give any person other than the Sempra Indemnitees and the Indemnitor any legal or equitable right, remedy or claim under or with respect to this Third Amendment except such rights as shall inure to a successor or permitted assignee pursuant to the Indemnity Agreement. The Sempra Indemnitees reserve all of their respective rights under the Financial Assurances and do not, by executing and delivering this Third Amendment, waive, impair or limit any of their respective rights or remedies, or the rights or remedies of any other Indemnified Parties, under the Financial Assurances. This Third Amendment may be executed in any number of counterparts, each of which, when so executed, shall be deemed to be an original and all of which, taken together, shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Third Amendment by fax or email shall be as effective as delivery of an original executed counterpart of this Third Amendment. This Third Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties have caused this Third Amendment to be executed as of the day and year first above written.

SEMPRA ENERGY

By:
Joseph A. Householder
Senior Vice President, Chief Accounting Officer and Controller

PACIFIC ENTERPRISES

By:
Randall Clark
Assistant Secretary

ENOVA CORPORATION

By:
Randall Clark
Assistant Secretary

THE ROYAL BANK OF SCOTLAND PLC

By:
Carol Mathis
Managing Director and Chief Financial Officer, GBM Americas

**SECOND AMENDMENT TO
LIMITED LIABILITY PARTNERSHIP AGREEMENT
OF
RBS SEMBRA COMMODITIES LLP**

This SECOND AMENDMENT (this “**Second Amendment**”) to the Limited Liability Partnership Agreement dated 1 April 2008 and made between The Royal Bank of Scotland plc, Sempra Commodities, Inc., Sempra Energy Holdings VII B.V., RBS Sempra Commodities LLP and Sempra Energy (the “**Agreement**”), as amended by the First Amendment to the Agreement, dated as of 6 April 2009, is made on 23 December 2009 by each of the parties to the Agreement.

Whereas, each of the parties to the Agreement desires to amend and supplement the Agreement in certain respects as described in this Second Amendment

It is agreed as follows:

- 1. Definitions.** Except as otherwise indicated herein, terms not defined herein bear the meaning ascribed to them in the Agreement.
- 2. Amendment of Clause 1.1 of the Agreement.** The definition of “US Business” in Clause 1.1 of the Agreement is hereby deleted and replaced in its entirety to read as follows:

“**US Business**” means that part of the Business conducted (i) directly or indirectly, by any member of the SET Group that is an entity organized under the laws of the United States, any state thereof or the District of Columbia (a “**US Entity**”), and including, in the case of a business conducted on a global trading book basis, only that amount allocated to such entity and (ii) by any member of the SET Group that is not a US Entity and holds United States property as defined in Section 956(c) of the Code, but only to the extent the Business activities relate to such United States property.

- 3. Amendment of Clause 7.7.4 of the Agreement.** Clause 7.7.4 of the Agreement is hereby amended by deleting the first instance of the phrase “such Financial Quarter” and inserting in its place the phrase “the month in which such distribution was required to have been made under Clause 7.7.1”.
- 4. Amendment of Clause 10 of the Agreement.** Clause 10 of the Agreement is hereby amended and supplemented by:

- a.** inserting the following paragraph as new Clause 10.2.2 therein:

10.2.2 RBS and any member of the same group as RBS for the purposes of Chapter IV of the Income and Corporation Taxes Act 1988 shall be permitted to surrender losses and other amounts (eligible for surrender pursuant to Section 402 Income and Corporation Taxes Act 1988) to any subsidiary of the Partnership pursuant to the said Chapter IV for a consideration in accordance with Clause 10.2.3 below.

- b.** re-designating the existing Clause 10.2.2 as Clause 10.2.3 and inserting after the words “Clause 10.2.1” therein the words “and Clause 10.2.2”;
- c.** changing the reference to “Clause 10.2.2 below” in Clause 10.2.1 to “Clause 10.2.3 below”;
- d.** inserting the following paragraph as a new Clause 10.5 therein:

10.5 SC shall report its allocable share of any US Net Income derived from the activities of Sempra Metals Limited, a limited company incorporated in the United Kingdom, as sourced to the United Kingdom and subject to taxation in the United Kingdom on its Tax Returns and all other Tax filings, unless (1) a competent authority decision pursuant to the income tax treaty between the United States and the United Kingdom holds that SC's allocable share of such US Net Income is United States source income, (2) the United States Internal Revenue Service determines in an audit that SC's allocable share of such US Net Income is United States source income, or (3) SC obtains a more likely than not opinion from a law firm nationally recognized in the United States that SC's allocable share of such US Net Income is United States source income.

- e.** inserting the following paragraph as new Clause 10.6 therein:

10.6 Any reference to or to any provision of the Income and Corporation Taxes Act 1988 shall be to that provision or statute as amended or re-enacted from time to time.

- 5. Effect of Amendment.** Except as expressly modified hereby, the Agreement remains in full force and effect. Upon the execution and delivery hereof, the Agreement shall thereupon be deemed to be amended and supplemented as hereinabove set forth as fully and with the same effect as if the amendments and supplements made hereby were originally set forth in the Agreement on April 1, 2008, together with the First Amendment and this Second Amendment, and the Agreement shall henceforth be read, taken and construed as one and the same instrument, but such amendments and supplements shall not operate so as to render invalid or improper any action heretofore taken under the Agreement.

- 6. Counterparts.** This Second Amendment may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. Either party may enter into this Second Amendment by executing any such counterpart. The exchange of copies of this Second Amendment and of signature pages by facsimile or email transmission shall constitute effective execution and delivery of this Second Amendment as to the parties and may be used in lieu of the original Second Amendment for all purposes. Signatures of the parties transmitted by facsimile or email shall be deemed to be their original signatures for all purposes.
- 7. Governing Law.** This Second Amendment shall be governed and construed in accordance with the Laws of England.

In witness whereof this Second Amendment has been duly executed.

SIGNED BY **THE ROYAL BANK OF SCOTLAND PLC** in the presence of:

SIGNED by **SEMPRA COMMODITIES, INC.** in the presence of:

SIGNED by **SEMPRA ENERGY HOLDINGS VII B.V.** in the presence of:

SIGNED by **RBS Sempra COMMODITIES LLP** in the presence of:

SIGNED by **SEMPRA ENERGY** in the presence of:

SDG&E OPERATING AGREEMENT
Between

STATE OF CALIFORNIA

DEPARTMENT OF WATER RESOURCES

And

SAN DIEGO GAS & ELECTRIC COMPANY

THIS AGREEMENT HAS BEEN FILED WITH AND APPROVED BY THE CALIFORNIA PUBLIC UTILITIES COMMISSION (“COMMISSION”) FOR USE BETWEEN THE STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES (“DWR”) AND SAN DIEGO GAS & ELECTRIC COMPANY (“UTILITY”).

Original Execution Date: April 17, 2003

Amended Execution Date: November 12, 2004¹

Date of Commission Approval:

Effective Date:

¹ Pursuant to D.04-10-020.

OPERATING AGREEMENT

This OPERATING AGREEMENT (this "Agreement") is between the State of California Department of Water Resources ("DWR"), acting solely under the authority and powers granted by AB1X, codified as Sections 80000 through 80270 of the Water Code, and not under its powers and responsibilities with respect to the State Water Resources Development System, and San Diego Gas & Electric Company, a California corporation ("Utility"). DWR and Utility are sometimes collectively referred to herein as the "Parties" and individually referred to as a "Party." Unless otherwise noted, all capitalized terms shall have the meanings set forth in Article I of this Agreement.

R E C I T A L S

WHEREAS, under the Act, DWR has entered into a number of long-term power purchase agreements for the purpose of providing the net short requirements to the retail ratepayers of the State's electrical corporations, including Utility; and

WHEREAS, the Contract Allocation Order of the Commission provides that such longterm power purchase agreements are to be operationally allocated among the State's electrical corporations, including Utility; solely for the purpose of causing the State's electrical corporations to perform certain specified functions on behalf of DWR, as DWR's limited agent, including dispatching, scheduling, billing and settlements functions, and to sell surplus energy, all as such functions relate to those certain power purchase agreements that are operationally allocated to each electrical corporation under the Contract Allocation Order; and

WHEREAS, DWR wishes to provide for the performance of such functions under the Allocated Contracts by Utility on behalf of DWR in accordance with such long-term power purchase agreements as provided in this Agreement; and

WHEREAS, consistent with the Contract Allocation Order, DWR will retain legal and financial obligations, together with ongoing responsibility for any other functions not explicitly provided in this Agreement to be performed by Utility, with respect to each of the Allocated Contracts and it is the intent of DWR and the Utility that the provisions of this Agreement will not constitute an "assignment" of the Allocated Contracts to Utility.

NOW, THEREFORE, in consideration of the mutual obligations of the Parties, the Parties agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01. Definitions. The following terms shall have the respective meanings in this Agreement:

The following terms, when used herein (and in the attachments hereto) with initial capitalization, shall have the meaning specified in this Section 1.01. Certain additional terms are defined in the attachments hereto. The singular shall include the plural and the masculine shall include the feminine and neuter, and vice versa. "Includes" or "including" shall mean "including without limitation." References to a section or attachment shall mean a section or attachment of this Agreement, as the case may be, unless the context requires otherwise, and reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented or restated through the date as of which such reference is made (except as otherwise specifically provided herein). Unless the context otherwise requires, references to Applicable Laws or Applicable Tariffs shall be deemed references to such laws or tariffs as they may be amended, replaced or restated from time to time. References to the time of day shall be deemed references to such time as measured by prevailing Pacific time.

"Act" means Chapter 4 of Statutes of 2001 (Assembly Bill 1 of the First 2001-02 Extraordinary Session) of the State of California, as amended.

"Agreement", means this Operating Agreement, together with all attached Schedules, Exhibits and Attachments, as such may be amended from time to time as evidenced by a written amendment executed by the Parties.

"Allocated Contracts" means the long-term power purchase agreements operationally allocated to Utility under the Contract Allocation Order, without legal and financial assignment of such agreements to Utility, as provided in Schedule 1 attached hereto.

"Allocated Power" means all power and energy, including the use of such power or energy as ancillary services, delivered or to be delivered under the Contracts.

"Applicable Commission Orders" means such rules, regulations, decisions, opinions or orders as the Commission may lawfully issue or promulgate from time to time, which relate to the subject matter of this Agreement.

"Applicable Law" means the Act, Applicable Commission Orders and any other applicable statute, constitutional provision, rule, regulation, ordinance, order, decision or code of a Governmental Authority.

“Applicable Tariffs” means Utility’s tariffs, including all rules, rates, schedules and preliminary statements, governing electric energy service to Utility’s customers in its service territory, as filed with and approved by the Commission and, if applicable, the Federal Energy Regulatory Commission.

“Assign(s)” shall have the meaning set forth in Section 14.01.

“Bonds” shall have the meaning set forth in the Rate Agreement.

“Bond Charges” shall have the meaning set forth in the Rate Agreement.

“Business Day” means the regular Monday through Friday weekdays which are customary working days, excluding holidays, as established by Applicable Tariffs.

“Commission” means the California Public Utilities Commission.

“Confidential Information” shall have the meaning set forth in Section 11.01(c).

“Contracts” means the Allocated Contracts.

“Contract Allocation Order” means Decision 02-09-053 of the Commission, issued on September 19, 2002, as such Decision may be modified, revised, amended, supplemented or superseded from time to time by the Commission.

“DWR Power” shall have the same meaning set forth in the Servicing Arrangement with such amendments to incorporate the Settlement Principles for Remittances and Surplus Revenues as provided in Exhibit C of this Agreement.

“DWR Revenues” means those amounts required to be remitted to DWR by Utility in accordance with this Agreement and as further provided in the Servicing Arrangement.

“Effective Date” means the effective date in accordance with Section 14.13, as such date is set forth on the cover page hereof.

“Fund” means the Department of Water Resources Electric Power Fund established by Section 80200 of the California Water Code.

“Good Utility Practice” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice does not require the optimum practice, method, or act to the exclusion of all others, but rather is intended to include acceptable practices, methods, or acts generally accepted in the Western Electric Coordinating Council region.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to a government, including the Commission.

“Governmental Program” means any program or directive established by Applicable Law which directly or indirectly affects the rights or obligations of the Parties under this Agreement and which obligates or authorizes DWR to make payments or give credits to customers or other third parties under such programs or directives.

“ISO” means the California Independent System Operator Corporation.

“Order” means Decision 02-12-069 of the Commission, issued on December 19, 2002 as such decision may be amended or supplemented from time to time by the Commission.

“Power Charges” shall have the meaning set forth in the Rate Agreement.

“Priority Long Term Power Contract” shall have the meaning set forth in the Rate Agreement.

“Rate Agreement” means the Rate Agreement between DWR and the Commission adopted by the Commission on February 21, 2002 in Decision 02-02-051.

“Remittance” means a payment by Utility to DWR or its Assign(s) in accordance with the Servicing Arrangement.

“Servicing Arrangement” means the Servicing Order as specified in Commission Decision 02-12-070, dated December 19, 2002, as may be modified from time to time.

“Supplier” means those certain third parties who are supplying power pursuant to the Contracts.

“Term” means term provided in Section 2.05 hereof.

“URG” means utility-retained generation, including without limitation Utility’s portfolio of generation resources and power purchase agreements prior to or after the Effective Date by Utility.

Section 1.02. Undefined Terms. Capitalized terms not otherwise defined in Section 1.01 herein shall have the meanings set forth in the Act or the Servicing Arrangement.

ARTICLE II

OPERATIONAL ALLOCATION OF POWER PURCHASE AGREEMENTS; MANAGEMENT OF THE CONTRACTS; ALLOCATED POWER; TERM

Section 2.01. Operational Allocation and Management of Power Purchase Agreements. On behalf of DWR, as its limited agent, Utility will perform certain day-to-day scheduling and dispatch functions, billing and settlements and surplus energy sales and certain other tasks with respect to the Allocated Contracts, as more fully set forth in this Agreement.

As further provided in Contract Administration and Performance Test Monitoring Protocols set forth in Exhibit E, DWR will continue to monitor and audit the Supplier performance under the Contracts. Upon development of a mutually agreeable plan, Utility will monitor the performance of Suppliers, as further provided in Exhibit E, subject, however, to DWR's right but not the obligation to audit and monitor all functions contemplated to be performed by Utility, all as further provided in this Agreement.

Section 2.02. Standard of Contract Management.

(a) Utility agrees to perform the functions specified in this Agreement relating to the Allocated Contracts in a commercially reasonable manner, exercising Good Utility Practice, and in a fashion reasonably designed to serve the overall best interests of retail electric customers. Utility shall provide to DWR such information specifically provided in Exhibit F hereto to facilitate DWR's verification of Utility's compliance with this Section 2.02.

(b) To the extent requested by Utility, DWR shall provide evidence in Commission proceedings describing Utility's and DWR's performance, rights and obligations under this Agreement.

(c) DWR acknowledges the Commission's exclusive authority over whether the Utility has managed Allocated Power available under the Contracts in a just and reasonable manner and DWR and Utility agree that none of the provisions of this Agreement shall be interpreted to reduce, diminish, or otherwise limit the scope of any Commission authority or to give DWR any authority over such matters. In addition, the Parties acknowledge that DWR is not subject to the Commission's jurisdiction, and the Parties agree that none of the provisions of this Agreement, including Section 13.04 herein, shall be interpreted to subject DWR to the Commission's jurisdiction or authority.

(d) The Utility acknowledges DWR's separate and independent right to evaluate and enforce Utility's commercial performance under this Agreement.

(e) Utility agrees to provide any information not otherwise required herein that is reasonably necessary to allow DWR to exercise its rights in subsection (d) above, provided that all such information shall be used solely for the purposes of exercising such rights.

Section 2.03. Good Faith. Each Party hereby covenants that it shall perform its actions, obligations and duties in connection with this Agreement in good faith.

Section 2.04. DWR Power. During the term of this Agreement, the electric power and energy, including but not limited to capacity, and output, or any of them from the Contracts delivered to retail end-use customers in Utility's service area shall constitute DWR Power for all purposes of the Servicing Arrangement. Utility shall arrange for transmission service to accommodate surplus sales to the extent that transmission service is available and cost effective, all as further provided in Exhibit A.

Section 2.05. Term.

(a) The Term of this Agreement shall commence on the Effective Date and shall terminate on the earlier of (a) the termination of the Servicing Arrangement, or (b) the termination of this Agreement by DWR upon ninety days' written notice to Utility, or (c) upon consultation with the Commission, the termination of the Agreement by DWR upon reasonable written notice to Utility no shorter than 30 days, or (d) pursuant to Article VII hereof, the termination of this Agreement by a non-defaulting Party after an Event of Default. In addition, this Agreement will terminate as to each Contract that terminates in accordance with its terms. DWR agrees to notify Utility as to the termination of each Contract as provided in Section 5.01(e) hereof.

(b) If an event occurs which has the effect of materially altering and materially adversely impacting the economic position of the Parties or either of them under this Agreement, then the affected Party may, by written notice, request that the Commission approve amendments to this Agreement or other arrangements incidental to this Agreement as necessary to preserve or restore the economic position under this Agreement held by the affected Party immediately prior to such event. Such notice shall describe the event and shall include reasonable particulars as to the manner and extent to which the economic position of the Party giving notice has been adversely affected.

ARTICLE III
LIMITED AGENCY / NO ASSIGNMENT

Section 3.01. Limited Agency. Utility is hereby appointed as DWR's agent for the limited purposes set forth in this Agreement. Utility shall not be deemed to be acting, and shall not hold itself out, as agent for DWR for any purpose other than those described in this Agreement. Utility's duties and obligations shall be limited to those duties and obligations that are specified in this Agreement.

Section 3.02. No Assignment. DWR shall remain legally and financially responsible for performance under each of the Contracts and shall retain liability to the counterparty for any failure of Utility to perform the functions referred to in this Agreement on behalf of DWR as its limited agent, under such Contracts in accordance with the terms thereof. It is the intent of DWR and Utility that the provisions of this Agreement shall not constitute or result in an "assignment" of the Allocated Contracts in any respect.

ARTICLE IV
LIMITED DUTIES OF UTILITY

Section 4.01. Limited Duties of Utility as to the Contracts. During the Term of this Agreement, Utility shall:

(a) On behalf of DWR, as its limited agent, perform the day-to-day scheduling and dispatch functions, including day-ahead, hour-ahead and real time trading, scheduling transactions with all involved parties, under the Allocated Contracts, perform billing and settlements functions and obtain relevant information for these functions such as transmission availability and others, with respect to the Allocated Contracts set forth in Schedule 1 hereto, all as more specifically provided in the Operating Protocols attached hereto as Exhibit A;

(b) On behalf of DWR, as its limited agent, enter into transactions for the purchase (or sale, as the case may be) of gas, gas transmission services, gas storage services and financial hedges, and perform the operational and administrative responsibilities for such purchases under gas tolling provisions under the Allocated Contracts, including the review of fuel plans and consideration of alternative fuel supply, all as more specifically provided in the Fuel Management Protocols attached hereto as Exhibit B;

(c) On behalf of DWR, as its limited agent, perform all necessary billing and settlement functions under the Allocated Contracts, in accordance with the terms of the applicable Contracts. In addition, perform all necessary billing and settlement functions related to DWR Revenues and remit DWR Revenues to DWR, consistent with the Settlement Principles for Remittances and Surplus Revenues attached hereto as Exhibit C and the Servicing Arrangement;

(d) Assume financial responsibility for the ISO charges listed on Exhibit D attached hereto;

(e) On behalf of DWR, as its limited agent, upon development of a mutually agreeable plan, monitor the performance of Suppliers under the Allocated Contracts and undertake the administration of the Allocated Contracts, as more specifically provided in the Contract Administration and Performance Monitoring Protocols attached hereto as Exhibit E;

(f) Provide to DWR the necessary information required by DWR as more specifically provided in the DWR Data Requirements From Utility attached hereto as Exhibit F to facilitate DWR's continued performance of financial obligations related to Allocated Contracts and to facilitate DWR's verification, audit and monitoring related to the Allocated Contracts and reporting requirements set forth in Applicable Laws or agreements;

(g) At all times in performing its obligations under this Agreement (i) comply with the provisions of each of the Allocated Contracts, (ii) follow Good Utility Practice, and (iii) comply with all Applicable Laws and Applicable Commission Orders;

(h) Appoint a primary and secondary contact person, as set forth in Schedule 2 hereto, to coordinate the responsibilities listed in this Section 4.01; and

(i) On behalf of DWR, as its limited agent, make surplus energy sales as more specifically provided in this Agreement.

Provided, however, in the event that DWR fails to provide or provides inaccurate information which results in Utility's non-compliance with its obligations under this Agreement, the resulting non-compliance by Utility shall not constitute an Event of Default under Section 7.01 hereof.

Section 4.02. Dispatch or Sale of Allocated Power. Subject to any existing or new ISO tariff provisions that may affect the dispatch of such Contracts, Allocated Power from all Contracts shall be dispatched or sold, as the case may be, by Utility pursuant to the Operating Protocols attached hereto as Exhibit A.

Section 4.03. DWR Revenues. DWR Revenues shall be accounted and remitted to DWR consistent with the principles provided in the Settlement Principles for Remittances and Surplus Revenues attached hereto as Exhibit C and the provisions of the Servicing Arrangement. Unless otherwise specifically provided in this Agreement, Utility will not be required at any time to advance or pay any of its own funds in the fulfillment of its responsibilities under this Agreement.

Section 4.04. Ownership of Allocated Power. Notwithstanding any other provision herein, and in accordance with the Act and Section 80110 of the California Water Code, Utility and DWR agree that DWR shall retain title to all Allocated Power, including DWR Power. In accordance with the Act and Section 80104 of the California Water Code, upon the delivery of Allocated Power to Utility's customers, those customers shall be deemed to have purchased that power from DWR, and payment for such sale shall be a direct obligation of such customer to DWR. In addition, Utility and DWR agree that DWR shall retain title to any surplus Allocated Power sold by Utility as limited agent to DWR as provided in this Agreement.

ARTICLE V DUTIES OF DWR

Section 5.01. Duties of DWR. Consistent with the Contract Allocation Order, during the Term of this Agreement, DWR shall:

(a) Remain legally and financially responsible under each of the Contracts and cooperate with Utility in the transition from DWR to Utility the performance of the functions provided in this Agreement;

(b) Assume legal and financial responsibilities and enter into or facilitate Utility's entering into transactions as DWR's limited agent, for the purchase (or sale, as the case may be) of gas, gas transmission services, gas storage services and financial hedges, and timely consent to or approve the Utility's performance of the operational and administrative responsibilities for such purchases under gas tolling provisions under the Allocated Contracts, including the review of fuel plans and consideration of alternative fuel supply, all as more specifically provided in the Fuel Management Protocols attached hereto as Exhibit B;

(c) Pay invoices to the Suppliers and perform all necessary verification, audit and monitoring of the billing and settlement functions to be performed on DWR's behalf, as its limited agent, by Utility relating to the Contracts. In addition, perform all necessary verification, audit and monitoring of the billing and settlement functions to be performed on DWR's behalf, as its limited agent, by Utility related to DWR Revenues, consistent with the principles set forth in the Settlement Principles for Remittances and Surplus Revenues attached hereto as Exhibit C;

(d) Until such time as a mutually agreed upon plan may be entered into with Utility and approved by the Commission, and no earlier than January 1, 2004, continue to monitor the performance of Suppliers and conduct certain

contract administration duties under the Allocated Contracts, all as more specifically provided in the Contract Administration and Performance Monitoring Protocols attached hereto as Exhibit E. In addition, continue to perform all other administrative functions related to Contracts not explicitly provided in this Agreement to be performed by Utility on behalf of DWR, as its limited agent;

(e) Upon the termination of any Contract, submit in writing to Utility appropriate Schedules and Attachments to Exhibit A amended to reflect the termination of any Contract. Such amended Schedules and Attachments shall become effective only upon the effective date of the termination of such Contract. Provided, however, rights or obligations of the Parties that arise or relate to Utility's performance of its duties under this Agreement in respect of any terminated Contract shall survive until the expiration of any such right or obligation; and

(f) Appoint a primary and secondary contact person, as set forth in Schedule 2 hereto, to coordinate the responsibilities listed in this Section 5.01.

ARTICLE VI
[RESERVED]

Section 6.01. [Intentionally left blank.]

ARTICLE VII
EVENTS OF DEFAULT

Section 7.01. Events of Default. The following events shall constitute "Events of Default" under this Agreement:

(a) any material failure by a Party to pay any amount due and payable under this Agreement that continues unremedied for five (5) Business Days after the earlier of the day the defaulting Party receives written notice thereof from the non-defaulting Party; or

(b) any material failure by Utility to schedule and dispatch Contracts, consistent with the principles set forth in Exhibit A; or

(c) any failure (except as provided in (a) or (b)) by a Party to duly observe or perform in any material respect any other covenant or agreement of such Party set forth in this Agreement, which failure continues unremedied for a period of 15 calendar days after written notice of such failure has been given to such Party by the non-defaulting Party; or

(d) any material representation or warranty made by a Party shall prove to be false, misleading or incorrect in any material respect as of the date made; or

(e) an Event of Default (as defined under the Servicing Arrangement) shall have occurred and is continuing under the Servicing Arrangement.

Section 7.02. Consequences of Utility Event of Default. Upon any Event of Default by Utility, DWR may, in addition to exercising any other remedies available under this Agreement or under Applicable Law, (i) terminate this Agreement in whole or in part; and (ii) apply in an appropriate forum for sequestration and payment to DWR or its Assign(s) of DWR Revenues or for specific performance of the functions related to the Contracts to be performed by Utility on behalf of DWR, as its limited agent, as provided in this Agreement.

Section 7.03. Consequences of DWR Event of Default. Upon an Event of Default by DWR (other than an Event of Default under 7.01(a)), Utility shall request that the Commission terminate this Agreement in whole or in part, Section 2.05 notwithstanding.

Section 7.04. Remedies. Subject to Article XIII of this Agreement, upon any Event of Default, the non-defaulting Party may exercise any other legal or equitable right or remedy that may be available to it under applicable law or under this Agreement.

Section 7.05. Remedies Cumulative. Except as otherwise provided in this Agreement, all rights of termination, cancellation, or other remedies in this Agreement are cumulative. Use of any remedy shall not preclude any other remedy available under this Agreement.

Section 7.06. Waivers. None of the provisions of this Agreement shall be considered waived by either Party unless the Party against whom such waiver is claimed gives such waiver in writing. The failure of either Party to insist in any one or more instances upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect. Waiver by either Party of any default by the other Party shall not be deemed a waiver of any other default.

ARTICLE VIII PAYMENT OF FEES AND CHARGES

Section 8.01. Utility Fees and Charges. As noted in the Contract Allocation Order, the details of the amount and recovery of administrative costs to Utility associated with the Contracts are expected to be considered in another Commission proceeding. As such, the Parties agree that the administrative costs to Utility will be recovered pursuant to such Commission proceeding. Utility shall enter the cost of such fees and charges in its Purchased Electric Commodity Account, or its successor or another account designated by the Commission on a current basis, for recovery in retail rates subject to subsequent Commission review.

ARTICLE IX REPRESENTATIONS AND WARRANTIES

Section 9.01. Representations and Warranties.

(a) Each person executing this Agreement for the respective Parties expressly represents and warrants that he or she has authority to bind the Party on whose behalf he or she has executed this Agreement.

(b) Each Party represents and warrants that it has the full power and authority to execute and deliver this Agreement and to perform its terms, that execution, delivery and performance of this Agreement have been duly authorized by all necessary corporate or other action by such Party, and that this Agreement constitutes such Party's legal, valid and binding obligation, enforceable against such Party in accordance with its terms.

(c) DWR represents and warrants that all necessary and appropriate notices, inducements, undertakings, approvals, and consents have been obtained from each Supplier to the Contract allocated to Utility in order for Utility to undertake its duties set forth in this Agreement in a timely and appropriate fashion.

ARTICLE X LIMITATIONS ON LIABILITY

Section 10.01. Consequential Damages. In no event will either Party be liable to the other Party for any indirect, special, exemplary, incidental, punitive, or consequential damages under any theory. Nothing in this Section 10.01 shall limit either Party's rights as provided in Article VII above.

Section 10.02. Limited Obligations of DWR. Any amounts payable by DWR under this Agreement shall be payable solely from moneys on deposit in the Department of Water Resources Electric Power Fund established pursuant to Section 80200 of the California Water Code (the "Fund").

Section 10.03. Sources of Payment; No Debt of State. DWR's obligation to make payments hereunder shall be limited solely to the Fund and shall be payable as an operating expense of the Fund solely from Power Charges subject and subordinate to each Priority Long Term Power Contract in accordance with the priorities and limitations established with respect to the Fund's operating expenses in any indenture providing for the issuance of Bonds and in the Rate Agreement and in the Priority Long Term Power Contracts. Any liability of DWR arising in connection with this Agreement or any claim based thereon or with respect thereto, including, but not limited to, any payment arising as the result of any breach or Event of Default under this Agreement, and any other payment obligation or liability of or judgment against DWR hereunder, shall be satisfied solely from the Fund. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA ARE OR MAY BE PLEDGED FOR ANY PAYMENT UNDER THIS AGREEMENT. Revenues and assets of the State Water Resources Development System, and Bond Charges under the Rate Agreement, shall not be liable for or available to make any payments or satisfy any obligation arising under this Agreement. If moneys on deposit in the Fund are insufficient to pay all amounts payable by DWR under this Agreement, or if DWR has reason to believe such funds may become insufficient to pay all amounts payable by DWR under this Agreement, DWR shall diligently pursue an increase to its revenue requirements as permitted under the Act from the appropriate Governmental Authority as soon as practicable. To the extent DWR's obligations are "administrative costs," they will require annual appropriation by the legislature.

Section 10.04. Cap on Liability. In no event will Utility be liable to DWR for damages under this Agreement, including indemnification obligations, whether in contract, warranty, tort (including negligence), strict liability or otherwise (referred to as "Damages" for purposes of this

Section), in an amount in excess of: 1) on an annual calendar year basis, \$5 million plus ten percent of Damages in excess of \$5 million and 2) for the entire term of this Agreement, \$50 million in total payments of Damages to DWR. For example, if Damages for an event are \$100 million, Utility's total liability for this event would be \$14.5 million (\$5 million plus 10% of \$95 million) and that would be the full extent of Utility's liability for such Damages. All Damages associated with an event will apply only to the annual limit in the first year in which Damages for that event were assessed. For example, if Damages for an event were paid as follows: \$15 million in year 1 and \$10 million in year 2, the Utility would pay DWR \$7 million (\$5 million plus 10% of \$10 million for year 1 and 10% of \$10 million for year 2). In this example, the \$1 million paid to DWR in year 2 (10% of \$10 million) does not count against the year 2 \$5 million calendar year threshold. DWR hereby releases Utility from any liability for Damages in excess of the limitations on liability set forth in this Section 10.04, provided however, that this limitation on Utility liability shall not apply to the extent the liability is a result of Utility's gross negligence or willful misconduct.

ARTICLE XI CONFIDENTIALITY

Section 11.01. Proprietary Information.

(a) Nothing in this Agreement shall affect Utility's obligations to observe any Applicable Law prohibiting the disclosure of Confidential Information regarding its customers.

(b) Nothing in this Agreement, and in particular nothing in Sections 11.01 (e)(x) through 11.01(e)(z) of this Agreement, shall affect the rights of the Commission to obtain from Utility, pursuant to Applicable Law, information requested by the Commission, including Confidential Information provided by DWR to Utility. Applicable Law, and not this Agreement, will govern what information the Commission may disclose to third parties, subject to any confidentiality agreement between DWR and the Commission.

(c) The Parties acknowledge that each Party may acquire information and material that is the other Party's confidential, proprietary or trade secret information. As used herein, "Confidential Information" means any and all technical, commercial, financial and customer information disclosed by one Party to the other (or obtained from one Party's inspection of the other Party's records or documents), including any patents, patent applications, copyrights, trade secrets and proprietary information, techniques, sketches, drawings, maps, reports, specifications, designs, records, data, models, inventions, know-how, processes, apparatus, equipment, algorithms, software programs, software source documents, object code, source code, and information related to the current, future and proposed products and services of each of the Parties, and includes, without limitation, the Parties' respective information concerning research, experimental work, development, design details and specifications, engineering, financial information, procurement requirements, purchasing, manufacturing, business forecasts, sales and merchandising, and marketing plans and information. In all cases, Confidential Information includes proprietary or confidential information of any third party disclosing such information to either Party in the

course of such third party's business or relationship with such Party. Utility's Confidential Information also includes any and all lists of customers, and any and all information about customers, both individually and aggregated, including but not limited to customers' names, street addresses of customer residences and/or facilities, email addresses, identification numbers, Utility account numbers and passwords, payment histories, energy usage, rate schedule history, allocation of energy uses among customer residences and/or facilities, and usage of DWR Power. All Confidential Information disclosed by the disclosing Party ("Discloser") will be considered Confidential Information by the receiving Party ("Recipient") if identified as confidential and received from Discloser.

(d) Each Party agrees to take all steps reasonably necessary to hold in trust and confidence the other Party's Confidential Information. Without limiting the generality of the immediately preceding sentence, each Party agrees (i) to hold the other Party's Confidential Information in strict confidence, not to disclose it to third parties or to use it in any way, commercially or otherwise, other than as permitted under this Agreement; and (ii) to limit the disclosure of the Confidential Information to those of its employees, agents or directly related subcontractors with a need to know who have been advised of the confidential nature thereof and who have acknowledged their express obligation to maintain such confidentiality. DWR shall not disclose Confidential Information to employees, agents or subcontractors that are in any respect responsible for power marketing or trading activities associated with the State Water Resources Development System.

(e) The foregoing two paragraphs will not apply to any item of Confidential Information if: (i) it has been published or is otherwise readily available to the public other than by a breach of this Agreement; (ii) it has been rightfully received by Recipient from a third party without breach of confidentiality obligations of such third party and outside the context of the provision of services under this Agreement; (iii) it has been independently developed by Recipient personnel having no access to the Confidential Information; (iv) it was known to Recipient prior to its first receipt from Discloser, or (v) it has been summarized, processed and incorporated for incorporation into reports, discussions, statements or any other further work product. In addition, Recipient may disclose Confidential Information if and to the extent required by law or a Governmental Authority, provided that (x) Recipient shall give Discloser a reasonable opportunity to review and object to the disclosure of such Confidential Information, (y) Discloser may seek a protective order or confidential treatment of such Confidential Information, and (z) Recipient shall make commercially reasonable efforts to cooperate with Discloser in seeking such protective order or confidential treatment. Discloser shall pay Recipient its reasonable costs of cooperating.

Section 11.02. No License. Nothing contained in this Agreement shall be construed as granting to a Party a license, either express or implied, under any patent, copyright, trademark, service mark, trade dress or other intellectual property right, or to any Confidential Information now or hereafter owned, obtained, controlled by, or which is or may be licensable by, the other Party.

Section 11.03. Survival of Provisions. The provisions of this Article XI shall survive the termination of this Agreement.

ARTICLE XII

RECORDS AND AUDIT RIGHTS

Section 12.01. Records. Utility shall maintain accurate records and accounts relating to the Contracts in sufficient detail to permit DWR to audit and monitor the functions to be performed by Utility on behalf of DWR, as its limited agent, under this Agreement. In addition, Utility shall maintain accurate records and accounts relating to DWR Revenues to be remitted by Utility to DWR, consistent with the Settlement Principles for Remittances and Surplus Revenues set forth in Exhibit C hereto. Utility shall provide to DWR and its Assign(s) access to such records. Access shall be afforded without charge, upon reasonable request made pursuant to Section 12.02. Access shall be afforded only during Business Hours and in such a manner so as not to interfere unreasonably with Utility's normal operations. Utility shall not treat DWR Revenues as income or assets of Utility or any affiliate for any tax, financial reporting or regulatory purposes, and the financial books or records of Utility and affiliates shall be maintained in a manner consistent with the absolute ownership of DWR Revenues by DWR and Utility's holding of DWR Revenues in trust for DWR (whether or not held together with other monies).

Section 12.02. Audit Rights.

(a) Upon 30 calendar days' prior written notice, DWR may request an audit, conducted by DWR or its agents (at DWR's expense), of Utility's records and procedures, which shall be limited to records and procedures containing information bearing upon Utility's performance of its obligations under this Agreement. The audit shall be conducted during Business Hours without interference with Utility's normal operations, and in compliance with Utility's security procedures.

(b) As provided in the Act, the State of California Bureau of State Audits (the "Bureau") shall conduct a financial and performance audit of DWR's implementation of Division 27 (commencing with Section 80000) of the California Water Code, and the Bureau shall issue a final report on or before March 31, 2003. In addition, as provided in Section 8546.7 of the California Government Code, Utility agrees that, pursuant to this Section 12.02, DWR or the State of California Department of General Services, the Bureau, or their designated representative ("DWR's Agent") shall have the right to review and to copy (at DWR's expense) any non-confidential records and supporting documentation pertaining to the performance of this Agreement and to conduct an on-site review of any Confidential Information pursuant to Section 12.03 hereof. Utility agrees to maintain such records for such possible audit for three years after final Remittance to DWR. Utility agrees to allow such auditor(s) access to such records during Business Hours and to allow interviews of any employees who might reasonably have information related to such records. Further, Utility agrees to include a similar right for DWR or DWR's Agent to audit records and interview staff in any contract between Utility and a subcontractor directly related to performance of this Agreement.

Section 12.03. Confidentiality. Materials reviewed by either Party or its agents in the course of an audit may contain Confidential Information subject to Article XI above. The use of all materials provided to DWR or Utility or their agents, as the case may be pursuant to this Article XII, shall comply with the provisions in Article XI and shall be limited to use in conjunction with the conduct of the audit and preparation of a report for appropriate distribution of the results of the audit consistent with Applicable Law.

Section 12.04. Annual Certifications. At least annually, and in no event later than the tenth Business Day after the end of the calendar year, Utility shall deliver to DWR a certificate of an authorized representative certifying that to the best of such representative's knowledge, after a review of Utility performance under this Agreement, Utility has fulfilled its obligations under this Agreement in all material respects and is in compliance herewith in all material respects.

Section 12.05. Additional Applicable Laws. Each Party shall make an effort to promptly notify the other Party in writing to the extent such Party becomes aware of any new Applicable Laws or changes (or proposed changes) in Applicable Tariffs hereafter enacted, adopted or promulgated that may have a material adverse effect on either Party's ability to perform its duties under this Agreement. A Party's failure to so notify the other Party pursuant to this Section 12.05 will not constitute a material breach of this Agreement, and will not give rise to any right to terminate this Agreement or cause either Party to incur any liability to the other Party or any third party.

Section 12.06. Other Information. Upon the reasonable request of DWR or its Assign(s), Utility shall provide to DWR or its Assign(s) any public financial information in respect of Utility applicable to services provided by Utility under this Agreement, to the extent such information is reasonably available to Utility, which (i) is reasonably necessary and permitted by Applicable Law to monitor the performance by Utility hereunder, or (ii) otherwise relates to the exercise of DWR's rights or the discharge of DWR's duties under this Agreement or any Applicable Law. In particular, but without limiting the foregoing, Utility shall provide to DWR any such information that is necessary or useful to calculate DWR's revenue requirements (as described in Sections 80110 and 80134 of the California Water Code).

Section 12.07. Data and Information Retention. All data and information associated with the provision and receipt of services pursuant to this Agreement shall be maintained for the greater of (a) the retention time required by Applicable Law or Applicable Tariffs for maintaining such information, or (b) three (3) years.

ARTICLE XIII

DISPUTE RESOLUTION

Section 13.01. Dispute Resolution. Should any dispute arise between the Parties or should any dispute between the Parties arise from the exercise of either Party's audit rights contained in Section 12.02 hereof, the Parties shall remit any undisputed amounts and agree to enter into good faith negotiations as soon as practicable to resolve such disputes within (10) Business Days so as to resolve such disputes, as appropriate, within the timeframes provided under this Agreement, or as soon as possible thereafter.

For any disputed Remittances, if such resolution cannot be made before the remittance date, Utility shall remit the undisputed portion to DWR. In addition, the disputed portion of the Remittances shall be deposited into an escrow account held by a qualified, independent escrow holder. Upon resolution of such disputes, the

Party that escrowed the disputed amount shall reimburse the other Party from the escrow account as necessary.

Section 13.02. ISO Settlements Disputes. Utility shall review, validate and verify all ISO charges/credits contained on all ISO settlement statements, including any charges/credits resulting from functions related to the Contracts to be performed by Utility as provided in this Agreement. Utility shall inform DWR of any discrepancies and shall dispute any such discrepancies with the ISO in accordance with the ISO's tariff and protocols. Except as provided in Section 13.03, if any ISO charge type settlement amount appearing on a Preliminary or Final Settlement Statement (as defined in the ISO tariff) resulting or relating to the Utility's performance of functions related to the Contracts under this Agreement is in dispute, it shall be the responsibility of Utility, on behalf of DWR, as its limited agent, to seek resolution of said dispute through the ISO dispute resolution process as provided in the ISO's tariff.

For disputes affecting Utility's Remittances to DWR, including disputes on ISO charges to non-DWR parties that would affect Remittances to DWR, Utility shall provide to DWR: a) notification of submission of the dispute through the ISO dispute resolution process, identifying, among other items, the dispute type, quantity, price and allocation; b) a copy of the submitted dispute and all supporting data; and c) a copy of all ensuing documentation resulting from the ongoing dispute resolution process. Utility shall track and validate all disputed ISO charges involving any financial responsibility of DWR.

Section 13.03. Supplier Invoice Disputes. DWR shall continue to be responsible for all dispute resolution relating to Supplier invoices. In addition, except as specifically provided in Exhibit E of this Agreement, all other contract administration functions shall remain DWR's responsibility.

Section 13.04. Good-Faith Negotiations. Should any dispute arise between the Parties relating to this Agreement, the Parties shall undertake good-faith negotiations to resolve such dispute. If the Parties are unable to resolve such dispute through good-faith negotiations, either Party may submit a detailed written summary of the dispute to the other Party. Upon such written presentation, each Party shall designate an executive with authority to resolve the matter in dispute. If the Parties are unable to resolve such dispute within 30 days from the date that a detailed summary of such dispute is presented in writing to the other Party, and the dispute relates solely to Utility's conduct, performance, acts and/or omissions (and not to DWR's conduct, performance, acts and/or omissions), then DWR may at its sole discretion, present the dispute to the Commission for resolution, in accordance with Applicable Law. All other disputes shall be brought in a court of competent jurisdiction or a forum mutually acceptable to the Parties in accordance with Applicable Law. Nothing herein shall preclude either Party from challenging the decision or action which such Party deems may adversely affect its interests in any appropriate forum of the Party's choosing.

Section 13.05. Costs. Each Party shall bear its own respective costs and attorney fees in connection with respect to any dispute resolution process undertaken by it pursuant to this Article. Provided, however, DWR shall reimburse Utility all reasonably incurred costs, including, but not limited to, in-house and retained attorneys, consultants, witnesses, and arbitration costs, arising from or pertaining to all disputes relating to ISO charges/credits contained on all ISO settlement statements resulting from the operational, dispatch and administrative functions related to the Contracts performed by Utility on behalf of DWR, as its

limited agent, pursuant to the standards set forth in Section 2.02 herein and consistent with the provisions of the ISO tariff, as may be amended from time to time, including disputes on ISO charges to non-DWR parties that would affect Remittances to DWR. These costs shall be recorded and invoiced in the manner set forth in Section 8.01 hereof.

ARTICLE XIV
MISCELLANEOUS

Section 14.01. Assignment

(a) Except as provided in paragraphs (b) and (c) below, neither Party shall assign or otherwise dispose of this Agreement, its right, title or interest herein or any part hereof to any entity, without the prior written consent of the other Party. No assignment of this Agreement shall relieve the assigning Party of any of its obligations under this Agreement until such obligations have been assumed by the assignee. When duly assigned in accordance with this Section 14.01 (a) and when accepted by the assignee, this Agreement shall be binding upon and shall inure to the benefit of the assignee. Any assignment in violation of this Section 14.01(a) shall be void.

(b) Utility acknowledges and agrees that DWR may assign or pledge its rights to receive performance hereunder to a trustee or another party ("Assign(s)") in order to secure DWR's obligations under its bonds (as that term is defined in the Act), and any such Assign shall be a third party beneficiary of this Agreement; provided, however, that this authority to assign or pledge rights to receive performance hereunder shall in no event extend to any person or entity that sells power or other goods or services to DWR.

(c) Any person (i) into which Utility may be merged or consolidated, (ii) which may result from any merger or consolidation to which Utility shall be a party or (iii) which may succeed to the properties and assets of Utility substantially as a whole, which person in any of the foregoing cases executes an agreement of assumption to perform every obligation of Utility hereunder, shall be the successor to Utility under this Agreement without further act on the part of any of the Parties to this Agreement; provided, however, that Utility shall have delivered to DWR and its Assign(s) an opinion of counsel reasonably acceptable to DWR stating that such consolidation, merger or succession and such agreement of assumption complies with this Section 13.01(c) and that all of Utility's obligations hereunder have been validly assumed and are binding on any such successor or assign.

(d) Notwithstanding anything to the contrary herein, DWR's rights and obligations hereunder shall be transferred, without any action or consent of either Party hereto, to any entity created by the State legislature which is required under Applicable Law to assume the rights and obligations of DWR under Division 27 of the California Water Code.

Section 14.02. Force Majeure. Neither Party shall be liable for any delay or failure in performance of any part of this Agreement (including the obligation to remit money at the times specified herein) from any cause beyond its reasonable control, including but not limited to,

unusually severe weather, flood, fire, lightning, epidemic, quarantine restriction, war, sabotage, act of a public enemy, earthquake, insurrection, riot, civil disturbance, strike, restraint by court order or Government Authority, or any combination of these causes, which by the exercise of due diligence and foresight such Party could not reasonably have been expected to avoid and which by the exercise of due diligence is unable to overcome.

Section 14.03. Severability. In the event that any one or more of the provisions of this Agreement shall for any reason be held to be unenforceable in any respect under applicable law, such unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such unenforceable provision or provisions had never been contained herein.

Section 14.04. Survival of Payment Obligations. Upon termination of this Agreement, each Party shall remain liable to the other Party for all amounts owing under this Agreement. Utility shall continue to collect and remit, pursuant to the terms of the Servicing Arrangement and the principles provided in the Settlement Principles for Remittances and Surplus Revenues provided in Exhibit C hereto and any DWR Charges billed to customers or any DWR Surplus Energy Sales Revenues attributable to sales entered into before the effective date of termination of the Servicing Arrangement.

Section 14.05. Third-Party Beneficiaries. The provisions of this Agreement are exclusively for the benefit of the Parties and any permitted assignee of either Party and there are no third party beneficiaries under this Agreement.

Section 14.06. Governing Law. This Agreement shall be interpreted, governed and construed under the laws of the State of California without regard to choice of law provisions.

Section 14.07. Multiple Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be an original.

Section 14.08. Section Headings. Section and paragraph headings appearing in this Agreement are inserted for convenience only and shall not be construed as interpretations of text.

Section 14.09. Amendments. No amendment, modification, or supplement to this Agreement shall be effective unless it is in writing and signed by the authorized representatives of both Parties and approved as required, and by reference incorporates this Agreement and identifies the specific portions that are amended, modified, or supplemented or indicates that the material is new. No oral understanding or agreement not incorporated in this Agreement is binding on either of the Parties.

Section 14.10. Amendment Upon Changed Circumstances. The Parties acknowledge that compliance with any Commission decision, legislative action or other governmental action (whether issued before or after the Effective Date of this Agreement) affecting the operation of this Agreement, including but not limited to (i) dissolution of the ISO, (ii) changes in the ISO market structure, (iii) a decision regarding direct access currently pending before the Commission, (iv) the establishment of other Governmental Programs, or (v) a modification to the Contract Allocation Agreement may require that amendment(s) be made to this Agreement. The Parties therefore agree that if either Party reasonably determines that such a decision or action would materially affect the services to be provided hereunder or the reasonable costs thereof, then upon the issuance of such decision or the approval of such action (unless and until it is stayed), the Parties will negotiate the amendment(s) to this Agreement that is (or are) appropriate in order to effectuate the required changes in services to be provided or the reimbursement

thereof. If the Parties are unable to reach agreement on such amendments within 60 days after the issuance of such decision or approval of such action, either Party may, in the exercise of its sole discretion, submit the disagreement to the Commission for proposed resolution. Nothing herein shall preclude either Party from challenging the decision or action which such Party deems may adversely affect its interests in any appropriate forum of the Party's choosing.

The Parties agree that, if the rating agencies request changes to this Agreement which the Parties reasonably determine are necessary and appropriate, the Parties will negotiate in good faith, but will be under no obligation to reach agreement or to ask the Commission to amend this Agreement to accommodate the rating agency requests and will cooperate in obtaining any required approvals of the Commission or other entities for such amendments.

Section 14.11 Indemnification.

(a) Indemnification of DWR. Utility (the "Indemnitor") shall at all times protect, indemnify, defend and hold harmless DWR, and its elected officials, appointed officers, employees, representatives, agents and contractors (each, an "Indemnified Party" or an "Indemnitee") from and against (and pay the full amount of) any and all claims (whether in tort, contract or otherwise), demands, expenses (including, without limitation, in-house and retained attorneys' fees) and liabilities for losses, damage, injury and liability of every kind and nature and however caused, and taxes (of any kind and by whomsoever imposed), to third parties arising from or in connection with (or alleged to arise from in connection with): (1) any failure by Utility to perform its material obligations under this Agreement; (2) any material representation or warranty made by Utility shall prove to be false, misleading or incorrect in any material respect as of the date made; (3) the gross negligence or willful misconduct of Utility or any of its officers, directors, employees, agents, representatives, subcontractors or assignees in connection with this Agreement; and (4) any violation of or failure by Utility or Indemnitor to comply with any Applicable Commission Orders or Applicable Law; provided, however, that the foregoing indemnifications and protections shall not extend to any losses arising from gross negligence or willful misconduct of any Indemnified Party.

(b) Obligation of Utility. Consistent with the Contract Allocation Order, Utility shall not, in acting as limited agent of DWR hereunder be required to perform any obligations of any Supplier under any Allocated Contract or to make any payments on behalf of such Supplier or as the result of the failure of such Supplier to perform under any Allocated Contract.

(c) Indemnification of Utility. To the extent permitted by law, DWR ("Indemnitor") shall at all times protect, indemnify, defend and hold harmless Utility, and its officers, employees, representatives, agents and contractors (each, an "Indemnified Party" or "Indemnitee"), from and against (and pay the full amount of) any and all claims (whether in tort, contract or otherwise), demands, expenses (including, without limitation, in-house and retained attorneys' fees) and liabilities for losses, damage, injury and liability of every kind and nature and however caused, and taxes (of any kind and by whomsoever imposed), to third parties arising from or in connection with (or alleged to arise from on in connection with): (1) any failure by DWR to perform its material obligations

under this Agreement or any Allocated Contract; (2) any material representation or warranty made by DWR shall prove to be false, misleading or incorrect in any material respect as of the date made; (3) the gross negligence or willful misconduct of the DWR or any of its officers, directors or employees, agents, representatives, subcontractors or assignees in connection with this Agreement; (4) any action claiming Utility failed to perform any Supplier's obligations under an Allocated Contract; and (5) any violation of or failure by DWR or Indemnitor to comply with any Applicable Law; and provided, however, that the foregoing indemnifications and protections shall not extend to any losses arising from the gross negligence or willful misconduct of any Indemnified Party.

(d) Indemnification Procedures. Indemnitee shall promptly give notice to Indemnitor of any claim or action to which it seeks indemnification from Indemnitor. Indemnitor shall defend any such claim or action brought against it, and may also defend such claim or action on behalf of the Indemnitee (with counsel reasonably satisfactory to Indemnitor) unless there is any actual or potential conflict between Indemnitor and Indemnitee with respect to such claim or action. If there is any actual or potential conflict between Indemnitor and Indemnitee with respect to such claim or action, Indemnitee shall have the opportunity to assume (at Indemnitor's expense) defense of any claim or action brought against Indemnitee by a third party; however, failure by Indemnitee to request defense of such claim or action by the Indemnitor shall not affect Indemnitee's right to indemnity under this Section 14.11.

In any acti on or claim involving Indemnitee, Indemnitor shall not settle or compromise any claim without the prior written consent of Indemnitee.

Section 14.12. Notices and Demands. (a) Except as otherwise provided under this Agreement, all notices, demands, or requests pertaining to this Agreement shall be in writing and shall be deemed to have been given (i) on the date delivered in person, (ii) on the date when sent by facsimile (with receipt confirmed by telephone by the intended recipient or his or her authorized representative) or electronic transmission (with receipt confirmed telephonically or electronically by the intended recipient or his or her authorized representative) or by special messenger, or (iii) 72 hours following delivery to a United States post office when sent by certified or registered United States mail postage prepaid, and addressed as set forth below:

Utility: San Diego Gas & Electric Company
8315 Century Park Court, CP21D
San Diego, California 92123

Attn: Terry Farrelly
Vice President, Electric and Gas Procurement
Telephone: (858) 650-6150
Facsimile: (858) 650-6191
Email: tfarrelly@semprautilities.com

DWR: State of California
The Resources Agency
Department of Water Resources
California Energy Resources Scheduling Division
3310 El Camino Avenue, Suite 120
Sacramento, California 95821

Attn: Peter S. Garris
Deputy Director
Telephone: (916) 574-2733
Facsimile: (916) 574-0301
Email: pgarris@water.ca.gov

(b) Each Party shall be entitled to specify as its proper address any other address in the United States, or specify any change to the above information, upon written notice to the other Party complying with this Section 14.12.

(c) Each Party shall designate on Schedule 2 the person(s) to be contacted with respect to specific operational matters. Each Party shall be entitled to specify any change to such person(s) upon written notice to the other Party complying with this Section 14.12.

Section 14.13. Approval. This Agreement shall be effective upon the execution by both Parties and approval of such executed agreement by the Commission. Except as expressly provided otherwise herein, neither Party may commence performance hereunder until such date. Any delay in the commencement of performance hereunder as a consequence of waiting for such approval(s) shall not be a breach or default under this Agreement.

Section 14.14. Government Code and Public Contract Code Inapplicable. DWR has determined, pursuant to Section 80014(b) of the California Water Code, that application of certain provisions of the Government Code and Public Contract Code applicable to State contracts, including but not limited to advertising and competitive bidding requirements and prompt payment requirements, would be detrimental to accomplishing the purposes of Division 27 (commencing with Section 80000) of the California Water Code and that such provisions and requirements are therefore not applicable to or incorporated in this Agreement.

Section 14.15. Annual Review. The provisions of the Exhibits are subject to annual review by DWR and Utility to ensure their relevance and usefulness. In the event that the Parties mutually agree that certain provisions of the Exhibits should be amended or supplemented, an amendment to the Exhibit should be executed and Utility shall submit to the Commission for approval.

Section 14.16 Other Operating Agreement. It is DWR's intent to have a consistent operating agreement with all three investor-owned utilities (IOUs). Should DWR reach an operating agreement with another IOU relating to the subject matter of this Agreement, that in Utility's judgment is more favorable on the whole than this Agreement, Utility shall have the right to receive the same terms and conditions as such other IOU. This provision specifically

does not allow Utility to select particular portions or provisions of such other IOU's operating agreement. In addition, if Utility elects to be subject to such other IOU's operating agreement's terms and conditions, Utility shall be subject to such other IOU's operating agreement with only such modifications agreed to by DWR as necessary to address operating differences between that other IOU and Utility. Utility shall exercise the foregoing right within 60 days following Commission approval of such other operating agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the date or dates indicated below, to be effective as of the Effective Date.

CALIFORNIA STATE DEPARTMENT OF WATER RESOURCES, acting solely under the authority and powers granted by ABIX, codified as Sections 80000 through 80270 of the Water Code, and not under its powers and Responsibilities with respect to the State Water Resources Development System

SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation

By: /s/ Peter S. Garris
Name: Peter S. Garris
Title: Deputy Director
Date: 11/12/04

By: /s/ James P. Avery
Name: James P. Avery
Title: Sr. Vice President – Electric
Date: 11/12/2004

Approved as to Legal Form

Schedule 1

ALLOCATED CONTRACTS

DWR Contract Allocation for SDG&E

Long-Term Contract	Contract Category
Morgan Stanley	Must-Take
Primary Power (expired)	Must-Take
Whitewater Cabazon	Must-Take
Whitewater Hill	Must-Take
Williams	Must-Take/Dispatchable
Calpeak (3 contracts) Border, El Cajon, and Escondido	Dispatchable
Sunrise	Dispatchable

Schedule 2

REPRESENTATIVES AND CONTACTS

TERRY FARRELLY
SAN DIEGO GAS & ELECTRIC COMPANY
ELECTRIC & GAS PROCUREMENT VP
8315 CENTURY PARK CT CP21D
SAN DIEGO CA 92123

MIKE McCLENAHAN
SAN DIEGO GAS & ELECTRIC COMPANY
ELECTRIC PROCUREMENT MANAGER
8315 CENTURY PARK CT CP21D
SAN DIEGO CA 92123

SDG&E EXHIBIT A
OPERATING PROTOCOLS

OPERATING PROTOCOLS

Pursuant to Section 4.01 of this Agreement, on behalf of DWR as its limited agent, Utility shall perform the day-to-day scheduling and dispatch functions, including day-ahead, hour-ahead and real-time trading, scheduling of transactions with all involved parties, making surplus energy sales and obtaining relevant information for these functions such as transmission availability and others, with respect to the Allocated Contracts set forth in Schedule 1 to the Agreement, all as more specifically provided below and in compliance with the provisions of each of the Contracts:

- I. Resource Commitment and Dispatch. Utility agrees to use good faith efforts to dispatch Allocated Contracts, based on the principle of "least cost dispatch" to retail customers, consistent with the Contract Allocation Order and other Applicable Commission Orders. Utility shall undertake these least cost dispatch functions both of Allocated Contracts and its URG so as to minimize the cost of service to retail customers based on circumstances known or that reasonably could have been known by Utility at the time dispatch decisions are made. DWR shall have no role in enforcement or review of Utility least cost dispatch under this Agreement and all issues of Utility compliance with least cost dispatch shall be within the sole review of the Commission.
- A. Annual, Quarterly and Weekly Load and Resource Assessment Studies. Utility shall provide to DWR copies of its annual and quarterly load and resource assessment studies. Provided that Utility submits substantially the same information to the Commission, copies of the Commission submission will be simultaneously sent to DWR to satisfy requirements of this section. In addition, Utility will provide a weekly commitment and dispatch plan for informational purposes to DWR in the same form that such plan is used internally.
- B. Scheduling Protocols.
 1. DWR is responsible for notifying the counter-party to each of the Allocated Contracts that scheduling under the Allocated Contracts will be performed by Utility before the first day that schedules are due to be submitted by Utility. DWR is responsible for notifying Utility of any changes to the Allocated Contracts that it has negotiated, including changes to the scheduling terms. DWR agrees to provide such notice as soon as possible following the negotiation of any changed provisions and in any case prior to the time that any changed provisions become effective.
 2. Utility agrees to schedule Contracts in accordance with their terms and in accordance with the requirements of the Control Area operator or operators with whom the Contract must be scheduled to provide for power delivery.

- II. ISO Ancillary Service (AS) Market. Among the Contracts are resources that are or may be qualified to be bid into the ISO's Ancillary Services ("AS") market or that Utility may use in its self-provision of AS. Utility is authorized to develop protocols and procedures for the use of DWR resources for AS. Utility shall, upon DWR's request, provide to DWR such information concerning Utility's intended use of DWR resources for AS as DWR may reasonably request for planning and revenue requirement purposes.
- III. Surplus Energy Sales and Energy Exchanges
- A. Over-generation. If the ISO announces an over-generation situation Utility will back down resources in accordance with the ISO tariff and Good Utility Practice. In order to reduce the need for physical curtailment in overgeneration situations, DWR and Utility shall develop pay for curtailment protocols and procedures that will enable Utility to instruct a must-take resource not to deliver energy under specified conditions. The costs and charges associated with mitigation of an over-generation situation shall be allocated among the Parties on a pro-rata basis consistent with the surplus sales allocation principles set forth in Exhibit C.
- B. Energy Exchange Arrangements. Existing non-DWR/CERS exchanges and those that might be transacted post-2002, will be considered URG exchanges. The accounting of energy necessary to support energy exchanges is addressed in Exhibit C.
- C. Surplus Energy Sales Arrangement. Utility shall on a monthly basis prepare a sales plan addressing all surplus sales, including without limitation sales to manage over-generation, contemplated by the Utility for review by DWR. Such plan shall address sales of power from the combined portfolio of URG resources and Allocated Contracts, which will be administered by Utility on its own behalf and acting as DWR's limited agent. As specified in Section 2.02 of the Agreement, Utility shall pursue surplus sales in a fashion reasonably designed to serve the overall best interests of retail electric customers based on information known or could have been known by Utility at the time. Utility agrees to include sufficient details in the sales plans to allow DWR to satisfy its financial management and reporting requirements. To the extent there is surplus power uncommitted to a forward energy surplus sales transaction, Utility shall be required to bid such surplus energy in the day-ahead, hour-ahead or real-time market. Utility shall arrange for transmission service to accommodate surplus sales to the extent that transmission service is available and cost effective. The costs of transmission service, ISO charges and the costs of firm transmission rights associated with such surplus energy sales transactions shall be treated in accordance with the Settlement Principles for Remittances and Surplus Revenues attached hereto as Exhibit C.

IV. Outage Coordination and Determination of Resource Availability of Contracts. Utility shall communicate with the Scheduling Coordinator of each Contract to coordinate, approve, document and report planned Contract outages. For those Contracts where resource availability affects capacity payments, Utility will use good faith efforts to verify supplier actual resource availability, and keep records of resource availability as reported by Supplier. In addition, Utility shall document all outages (forced and planned) and notices of outages of DWR contract resources and provide such documents to DWR within five (5) business days after the end of each calendar month.

SDG&E EXHIBIT B

FUEL MANAGEMENT PROTOCOLS

EXHIBIT B
FUEL MANAGEMENT PROTOCOLS

Certain of the Contracts listed on Schedule 1 of this Agreement provide DWR the option of either (i) letting the Supplier provide the necessary natural gas for its generating units at an index-based price or agreed upon fixed price or (ii) DWR procuring the gas supply and causing such supply to be delivered to the Supplier under a tolling arrangement ("Fuel Option"). Certain of the Contracts with Fuel Option provide that DWR can decide on a monthly basis whether to procure the gas and others provide that the decision be made annually or semi-annually when DWR reviews the Supplier's proposed fuel plan.

The purpose of this Exhibit B is to describe the relationship which will exist between DWR and Utility and the specific responsibilities of each as they all relate to managing the natural gas provisions of the Contracts which include Fuel Options.

Specifically, this Exhibit B will address responsibilities for the following activities: (i) determining types and lengths of gas contracts, (ii) nominating deliveries, (iii) contracting for gas transportation and storage, (iv) managing imbalances, (v) reviewing, authorizing and making payment of gas invoices and (vi) determining and implementing hedge strategies, as appropriate.

I. Operating Relationship Between DWR and Utility

While DWR will retain legal and financial responsibility for gas and related services, Utility shall, as a limited agent acting for DWR, perform the administrative and operational activities, as further specified below, required to ensure adequate gas is supplied to Suppliers' generating units, consistent with the tolling provisions included in the Contracts. The intent of this relationship is to provide Utility sufficient flexibility and authority to execute normal day-to-day activities associated with managing the fuel provisions of tolling Contracts and procurement of natural gas and related services, as a limited agent acting on behalf of DWR without direct involvement by DWR but in a manner consistent with Utility Gas Supply Plans which have been reviewed and approved by DWR and the Commission.

II. Fuel Activities

Consistent with the terms of the Contracts with Fuel Options, Utility shall have administrative and operational authority to act, as a limited agent, for fuel supply related activities, consistent with the following goals and guidelines whenever Utility has recommended, and DWR has reviewed and approved such recommendation that gas for a Contract with Fuel Option be caused to be supplied by Utility from a list of approved providers.

1. Utility shall use reasonable commercial efforts to secure delivery of gas in a reliable manner and consistent with gas requirements for producing scheduled energy.
2. Utility shall develop a portfolio of gas supply for the Contracts that contain Fuel Options and where Utility is to supply gas, acting as limited agent on behalf of DWR, consistent with the approved Utility Gas Supply Plans. Such portfolio

should be diversified in terms of price mechanism, period of performance, and gas suppliers.

3. Utility shall develop a portfolio of supply, which is reasonably priced relative to the market and in accordance with an approved Utility Gas Supply Plan.

III. Review of Supplier Fuel Plans

In accordance with the terms of each of the Contracts with Fuel Options, Utility, acting as a limited agent on behalf of DWR, shall review each fuel plan prepared and submitted by the Supplier, and forwarded to the Utility by DWR, and determine whether to recommend (i) approval of the Supplier Fuel Plan and authorization for the Supplier to provide gas to its generating unit(s), or (ii) procurement and management of gas supplies to the generating unit(s) by Utility. Utility, acting as a limited agent on behalf of DWR, shall advise DWR and the Commission on a timely basis of its recommendation regarding responsibility for supplying natural gas. DWR shall, on a timely basis, review Utility's recommendation and either approve or identify requested changes. Once approved, Utility shall advise the Supplier in accordance with the time requirements included in the appropriate Contract with Fuel Option. In addition, for any Supplier Fuel Plans which have been implemented and are operative as of the Effective Date, and where DWR has previously elected to be responsible for gas supply, Utility may advise DWR that it would rather have Supplier provide the gas as of the Effective Date. DWR shall coordinate with Utility and Supplier to revise such Supplier Fuel Plans, to the extent possible, prior to the Effective Date.

IV. Fuel Procurement Strategies

Under the Contracts with Fuel Option, upon Utility's recommendation, and DWR's review and approval of such recommendation, Utility will be responsible for procuring the natural gas fuel from a list of approved gas providers. Utility shall, acting as the limited agent of DWR, have administrative and operational responsibility for determining its gas procurement strategies, including but not limited to (i) types of contracts, (ii) length of contracts, (iii) pricing terms, (iv) use of storage, (v) types of gas transportation, (vi) delivery point(s), (vii) whether and how to obtain gas price forecasts, (viii) if and what risk management tools are to be used, and (ix) how to maintain current market intelligence.

Utility shall consolidate these strategies and submit them to DWR and the Commission as a "Utility Gas Supply Plan" by April 17, 2003 and, thereafter on a semi-annual basis during the Term. Utility may also provide a copy of such Gas Supply Plan to DWR in advance of the filing with the Commission so as to be able to indicate DWR's approval of such plan. Utility shall indicate in its Advice letter filing to the Commission whether DWR has approved such plan as appropriate. DWR shall also formally notify the Commission when it has approved such plan.

DWR and the Commission will review and approve the Utility Gas Supply Plans. In the event of conflicting guidance between the Commission and DWR regarding

various aspects of the Gas Supply Plan they respectively approve or reject, where DWR only approves a subset of what the Commission approves, then Utility shall operate within the sphere of DWR's approval. If, however, the Commission explicitly rejects portions of the Gas Supply Plan that DWR would authorize, then Utility must operate within the limitations of the Commission's decision. After a reasonable period of time operating within the framework of the Gas Supply Plans and the Commission's and DWR's respective approval and/or rejection of various pieces of the Gas Supply Plan, the Parties agree to meet and confer to determine whether the approval process may need to be revised in some manner, and Utility shall submit to Commission any such proposed revisions. Once approved, Utility may act within such Utility Gas Supply Plan without further DWR involvement, except as provided below.

V. Gas Purchasing

Utility and DWR shall jointly determine a list of approved gas providers who can be used to supply gas under the Contracts with Fuel Options. Master agreements intended to cover normal day-to-day volumes will then be executed with such approved providers. While DWR will be the executing party under all DWR gas contracts, such agreements shall specifically authorize Utility to act for and on behalf of DWR, as a limited agent, in negotiating specific prices, quantities and delivery periods for specific purchases under such master agreements; provided however, on the earliest practicable date after the execution of this Agreement, DWR agrees to provide to Utility in writing and in advance of such negotiations any limits, including without limitation any terms, that may be required by DWR. If Utility determines it would be beneficial to enter into any DWR gas contract which exceeds 3 months or have a total value exceeding \$10 million, it shall negotiate such agreement(s) and submit them to DWR for advance approval and execution.

VI. Gas Transportation

Utility shall have responsibility for recommending to DWR which pipelines should transport gas if Utility, acting as limited agent on behalf of DWR is to supply gas under a Contract with Fuel Option. Following approval of or revision of Utility Gas Supply Plan, Utility shall negotiate firm and/or interruptible agreements with such pipelines, consistent with the Utility Gas Supply Plan and submit them to DWR for execution. While DWR will be the executing party, such agreements with pipelines shall specifically authorize Utility to act for and on behalf of DWR in nominating gas deliveries, making imbalance trades and managing gas volumes transported under such agreements; provided, however, on the earliest practicable date after the execution of this Agreement, DWR agrees to provide to Utility in writing and in advance of such negotiations any limits, including without limitation any terms, that may be required by DWR.

VII. Gas Scheduling

If permitted under the Allocated Contracts, the Utility shall have full administrative and operational responsibility for scheduling gas deliveries, whether to a specific generating plant or to storage for all gas contracts entered into by DWR or by Utility

on DWR's behalf pursuant to this Exhibit B. This function includes use of interstate and intrastate gas pipeline provider websites, confirming via telephone, and all other activities required to move gas from the designated delivery point, as determined by the Utility, to its destination, as determined by the Utility.

VIII. Storage Capacity, Injections and Withdrawals

Utility shall have responsibility for devising plans for gas storage, if Utility, acting as limited agent on behalf of DWR, is to supply gas under Contracts with Fuel Option from a list of approved providers. Following approval of the Utility Gas Supply Plans, Utility shall negotiate firm and/or interruptible agreements with such storage service providers and submit them to DWR for execution.

While DWR will be the executing party with DWR remaining the principal under such contracts, such agreements with storage service providers shall specifically authorize Utility to act for and on behalf of DWR in nominating gas injections and withdrawals under such agreements; provided, however, on the earliest practicable date after the execution of this Agreement, DWR agrees to provide to Utility in writing and in advance of such negotiations any limits, including without limitation any terms, that may be required by DWR.

IX. Managing Gas Delivery/Usage Imbalances

For gas that it purchases and transports on behalf of DWR, Utility shall have full administrative and operational responsibility for monitoring and managing the daily status of gas usage vs. gas deliveries (i.e. gas imbalances). In addition, to the extent that gas transportation providers issue operational flow orders or require adjustments in scheduled gas deliveries due to system constraints, Utility, acting as limited agent on behalf of DWR, shall be responsible for compliance with such orders. Utility shall also be responsible for any penalties imposed by gas transportation providers for imbalances caused by Utility, due to its failure to exercise prudent gas management practices.

X. Invoice Review, Approval and Payment

For natural gas, pipeline transportation and storage services it purchases in accordance with this Exhibit B, Utility, acting as limited agent on behalf of DWR, shall have responsibility for receiving invoices from gas, transportation and storage suppliers, reviewing them for accuracy, approving/rejecting invoices for payment and forwarding to DWR for payment; provided, however, on the earliest practicable date after the execution of this Agreement, DWR agrees to cause Utility to be authorized to receive such information from Suppliers. Utility shall provide DWR sufficient documentation to verify payment of the invoices.

XI. Forecasting

Utility shall be responsible for all gas price, demand and supply forecasts which Utility believes are consistent with any accepted gas supply responsibilities.

XII. Risk Management

Utility shall develop and include in its Gas Supply Plans, plans for the hedging of DWR Fuel Supply costs. Final decisions relating to the use or non-use of financial

tools such as futures, options and swaps to hedge future gas price exposure on any gas volumes not hedged by Utility under the Utility Gas Supply Plans shall be made and implemented by DWR. Any such contracts executed by DWR on a “portfolio basis” should be utility-specific.

XIII. Market Intelligence

Any and all efforts to obtain, analyze and utilize market intelligence for decision-making purposes shall be the responsibility of Utility.

XIV. Payment of Gas Costs

For natural gas, pipeline transportation, financial hedges and storage services that are purchased and provided by a Supplier under an approved Fuel Supply Plan, DWR shall pay such gas related costs as part of the invoice for commodity, product, or services submitted by the Supplier. For natural gas, pipeline transportation and storage services provided under DWR contracts and administered by Utility on behalf of DWR, DWR shall pay invoices after they have been reviewed and approved for payment by Utility.

XV. Allocation of Existing DWR Gas Contracts

DWR has entered into gas supply, transportation and storage contracts as provided in Attachment 1 to this Exhibit B that have expiration dates after the Effective Date of this Agreement. The administrative and operational control of the contracts listed on Attachment 1 to this Exhibit B will become the responsibility of Utility. This shall include (i) scheduling gas transportation, (ii) confirming gas deliveries, (iii) nominating gas withdrawals from and injections into storage, if applicable, (iv) and reviewing and approving invoices for payment. When approved, invoices shall be transmitted to DWR for payment within 10 days of receipt of invoice from the gas supplier, gas storage or gas transportation provider.

XVI. Pre-existing Financial Hedge Instruments

If DWR has entered into any financial hedge transactions that will remain operable after the Effective Date of this Agreement, DWR shall retain full administrative and operational control over such transactions.

EXHIBIT B

Attachment 1

Existing DWR Gas Purchase, Storage and Transportation Contracts
San Diego Gas & Electric Company

Quarterly Allocation of Williams Gas Contract <small>(Quantity contracted: 5 percent)</small>	2004		2004-2010 Average <small>(after Dynegy contract)</small>	
	SCE	SDG&E	SCE	SDG&E
Jan - Mar	100%	0%	85%	15%
Apr - Jun	95%	5%	85%	15%
Jul - Sep	60%	40%	35%	65%
Oct - Dec	90%	10%	50%	50%

SDG&E EXHIBIT C
SETTLEMENT PRINCIPLES
FOR REMITTANCES AND
SURPLUS REVENUES

EXHIBIT C

SETTLEMENT PRINCIPLES FOR REMITTANCES AND SURPLUS REVENUES

This Exhibit C outlines the principles by which Utility will calculate revenues associated with surplus energy sales and DWR energy delivered to retail customers. This Exhibit C also addresses the information that Utility will provide to DWR to support DWR payment of Contract invoices, and invoices from natural gas supplier(s) for fuel provided to service DWR Contracts where tolling options have been implemented.

This Exhibit C works in conjunction with the applicable Servicing Arrangement with Utility for purposes of determining the remittance amounts by Utility, which will serve as DWR's billing and collection agent.

In accordance with the Contract Allocation Order², this Exhibit C provides that:

- Revenues will be allocated for both surplus sales and retail customer deliveries

- Revenues will be allocated pro rata, based on dispatched quantities of energy

- The principle of balancing least cost economic dispatch while maintaining reliability is reinforced through these revenue allocation protocols.

- Surplus sales quantities will be calculated as the difference between Utility's Energy Delivery Obligations (EDO) and the combination of energy from URG and energy dispatched from Contracts.

Where Utility's Energy Delivery Obligations is defined as: (1) Utility's retail load which includes distribution losses, (2) all pumping load, (3) all energy exchange transactions between Utility and counter parties, (4) wholesale obligations existing as of January 1, 2003, and (5) transmission losses.

The principles herein, together with the applicable methods and calculations contained in the Servicing Arrangement, form a substantive component of the accounting protocols required to implement the Contract Allocation Order. This Exhibit should also be read in conjunction with Exhibit F ("Data Requirements").

² Contract Allocation Order is CPUC Decision (D.) 02-09-053.

Utility Remittance to DWR

Utility shall remit to DWR an Energy Payment for the delivery of Contract energy to Utility retail customers and a separate payment for DWR's share of Surplus Energy Sales Revenues. The principles for the remittances to DWR of Surplus Energy Sales Revenue and Energy Payment are contained in Sections A and B of this Exhibit C, respectively. The details for determination of the remittances to DWR by Utility are contained in the Servicing Arrangement between the Utility and DWR.

A. Utility Remittance to DWR of Revenue from Surplus Energy Sales

Surplus Energy and Revenues

Surplus energy exists when dispatched supply from Utility portfolio and DWR Contracts exceeds Utility's Energy Delivery Obligations. When such a condition exists, the revenues from the sale of surplus energy shall be shared between Utility and DWR. Surplus sale revenues can occur either through a forward market sale or a delivery of the excess energy into the ISO real time market. In addition to the sharing of surplus energy revenues, the quantity of any surplus energy shall likewise be shared between Utility and DWR, and used in the determination of the Hourly Percentage Factor described in Section I(B).

Surplus energy sales revenues shall be placed by Utility into a separate account (Surplus Sales Fund) to be held in trust and shall be disbursed by Utility to DWR in accordance with the pro-rata allocation principles in Exhibit C and consistent with the provisions of Attachment J of the Servicing Arrangement. For surplus energy sales to third parties, Utility shall apply reasonable credit risk management criteria that is consistent with industry accepted credit standards.

Surplus Energy Quantity

The Surplus Energy quantity shall be determined by subtracting Utility's Energy Delivery Obligations from the sum of dispatched URG energy and dispatched DWR Supply. URG energy shall include dispatched energy from URG, new Utility contracts and Utility market purchases plus adjustments for Ancillary Services and ISO Instructed Energy as described under "Definitions and Adjustments." DWR Supply shall include dispatched energy from DWR must take and dispatchable contracts net of adjustments described below.

DWR Surplus Energy quantity shall be the product of Surplus Energy quantity multiplied by the DWR Surplus Energy Percentage.

Utility Surplus Energy quantity shall be the remaining portion of Surplus Energy. Both Utility and DWR Surplus Energy quantities shall be applied to the respective Party's energy supply quantities for determination of the Hourly Percentage Factor described in Section (B).

Surplus Energy Sales Revenues

Surplus Energy Sales Revenues shall be shared between Utility and DWR in the same manner as Surplus Energy.

Forward Market Sale

DWR share of revenues from a forward market sale of surplus energy shall be the product of the net revenue multiplied by the DWR Surplus Energy Percentage. Utility share of these revenues shall be net revenue less DWR share of net revenues. Revenues from a forward market sale shall not be distributed to the Parties until after Utility receives the revenues from the sales and pays sale-related charges. Shared revenues from forward market sales shall be net of transmission costs and broker fees.

ISO Real Time Market Sales

Revenues from delivery of surplus energy to the ISO real time market shall be determined from the product of positive load or supply deviation multiplied by the ISO real time market price. These revenues will be netted against any ISO charges related to the load deviation, including a negative ISO price. Load deviation is determined by subtracting the Utility metered load from the Final Hour Ahead Load Schedule, however only positive quantities, where schedule exceeds meter, reflect surplus conditions for revenue sharing. Supply deviation is determined by subtracting the Final Hour Ahead Supply Schedule (adjusted by real time instructions) from metered supply, however, only positive quantities, where meter exceeds the adjusted schedule, reflect surplus conditions for revenue sharing.

DWR share of revenues from delivery of surplus energy to ISO real time market shall be the product of the net revenues multiplied by the DWR Surplus Energy Percentage. Utility share of these net revenues shall be the net revenue less DWR share of net revenues. Revenues from delivery of surplus energy to the ISO real-time market shall not be distributed to the Parties until after the Utility received payment for final monthly invoice from the ISO for the month in which the surplus energy was delivered.

Over-generation Periods

During periods of over-generation condition as announced by the ISO, surplus sales may be made at very low, zero or even negative prices. In such conditions, the surplus sale revenue calculations as described above still hold. However it is recognized that the sales may result in little or no revenue. Sales could even be done at a cost to the seller. That seller could be Utility or the ISO selling in an "out-of-market" condition. During these conditions, ISO-related charges assigned to Utility for such sales (e.g. - ISO selling out-of-market) are included in the surplus sales revenue as a cost. During overgeneration conditions there may be no market in which to sell surplus energy. In that event, or in expectation of that event, Utility shall declare that no valid market exists for surplus energy and shall begin curtailing must-take resources in accordance with Utility's procedures for mitigating over-generation conditions. Such mitigation measures shall be consistent with good utility practice, specifically hydroelectric facilities at spill or nearspill conditions and nuclear facilities scheduled by Utility are the last resources to be reduced in power output.

Over-generation for purposes of this Exhibit C is defined as the condition in which total supply exceeds total loads in the ISO control area.

Revenues or costs from delivery of surplus energy to the ISO real time market under an over-generation condition shall not be distributed to the Parties until after Utility receives

payment for final monthly invoice from the ISO for the month in which the surplus energy was delivered.

Calculation of Surplus Energy Percentage

DWR Surplus Energy Percentage shall be equal to the pro rata share of DWR Supply to the sum of Utility Supply and DWR Supply, expressed as follows:

$$\text{DWR Surplus Energy Percentage} = \text{DWR Supply} / (\text{Utility Supply} + \text{DWR Supply})$$

Where:

DWR Supply is total energy dispatched from DWR Contracts with adjustments for transmission losses. Ancillary Services and ISO Instructed Energy transactions described below.

Utility Supply is total energy dispatched from URG, new Utility contracts and Utility market purchases with adjustments for transmission losses, existing wholesale obligations, Ancillary Services and ISO Instructed Energy, exchange transactions, all pumping loads, and ISO Uninstructed Energy as described below.

B. Definitions and Adjustments

Certain energy and capacity transactions, which may be conducted by Utility in its normal course of business, may affect the Utility and DWR Supply quantities used in pro rata calculations.

Exchanges are transactions where energy is delivered to a third party in one period and a similar, but not necessarily equal, amount of energy is returned by third party in a different period. For the purposes of pro rata share calculation, exchanges use energy from the Utility's URG.

Forward Sales are transactions where energy is sold in a forward market to balance supply with demand. In general, for the purposes of remittance determination, forward sales are made using energy from the joint Utility/DWR portfolio.

Ancillary Services are transactions where capacity from certain qualifying resources is sold to ISO for ancillary services rather than being used as energy to serve retail load. Resources from both Utility portfolio and DWR Contracts may qualify for use as ancillary services. Since the capacity used for ancillary services does not serve retail energy load, ancillary service capacity is not considered as a joint Utility/DWR portfolio transaction for the purpose of remittance determination. If Utility or DWR Contract resource capacity is used for ancillary services, the capacity quantity will not be included in the supply quantity of the owning party for the purpose of pro rata share calculations, and owning party will retain all the revenues from the ancillary services as well as all associated transaction costs and ISO charges.

ISO Instructed Energy is a transaction where certain qualifying resources are able to sell energy from unused capacity to the ISO in the real time market. The

energy delivered from these resources is directed by the ISO in real time to balance supply and load imbalances on the grid. Either Utility portfolio or DWR Contracts may contain resources that have ability to provide instructed energy to ISO. Since instructed energy is resource specific and does not directly serve the retail load of any utility, instructed energy is not considered as a joint Utility/DWR portfolio transaction for the purpose of remittance determination. If Utility or DWR Contract resources are dispatched as instructed energy, the energy quantity will not be included in the supply quantity of the owning party for the purpose of pro rata share calculations, and owning party will retain all the revenues from the instructed energy as well as all associated transaction costs and ISO charges.

ISO Uninstructed Energy is a transaction where energy is delivered or received from the ISO grid in the real time based on the actual consumption of retail load and actual deliveries of supply resources.

Uninstructed Retail Load Deviations

Uninstructed retail Load Deviations are the difference between scheduled load and metered load. If retail load deviations are positive (schedule exceeds meter), it is considered that any excess supply (less any positive uninstructed supply deviation) was dispatched from the joint Utility/DWR portfolio in excess of quantity needed to serve retail load, and that the ISO credit for the excess supply should be shared pro rata as described above. If retail load deviations are negative (meter exceed schedule), to the extent deviations are not compensated by a positive uninstructed supply deviation, it is considered that Utility had to procure additional supply from ISO real time market. The negative load deviation quantity procured from ISO real time market is considered a Utility market purchase and the quantity will be included in Utility Supply for pro rata share calculation purposes.

Uninstructed Supply Deviations

Uninstructed Supply Deviations are the difference between scheduled supply and metered supply plus an ISO allocation for transmission losses. If Utility's net supply deviations³ are positive (meter exceeds schedule), to the extent not needed to compensate a negative uninstructed retail load deviation, it is considered that excess supply was a Utility market sale and will not be included in Utility Supply for pro rate calculation purposes. If Utility's net supply deviations are negative (schedule exceeds meter), to the extent not balanced by a positive uninstructed retail load deviation, it is considered that Utility had to procure additional supply from the ISO real time market. The negative supply deviation quantity procured from the ISO real time market is considered a Utility market purchase and the quantity will be included in Utility Supply for pro rata share calculation purposes.

³ Net positive and negative deviations of all supply resources.

C. Utility Remittance to DWR for Sales of DWR Energy to Utility Retail Customers – Energy Payment

Utility shall remit to DWR its Energy Payments according to the terms of each Utility’s respective Servicing Arrangement.

The DWR Energy Payment is billed by each utility to customers in accordance with the terms of each applicable Utility Servicing Arrangement. The DWR Energy Payment is billed kWhs served by Net DWR Supply at the applicable CPUC approved DWR rate. Net DWR Supply is total DWR Supply less DWR share of surplus energy. The DWR Energy Payment is allocated based on the percentage of energy supplied by DWR to Utility, which is the “Hourly Percentage Factor” multiplied by the retail load of each customer. The Hourly Percentage Factor is determined by calculating the percentage of net energy supplied by DWR to Utility to serve retail load, as expressed below:

$$\text{Hourly Percentage Factor} = \text{Net DWR Supply} / (\text{Net Utility Supply} + \text{Net DWR Supply})$$

Where:

Net DWR Supply is DWR Supply quantity used for the determination of DWR Surplus Energy Percentage less DWR share of surplus energy quantity, which is determined by the product of surplus energy multiplied by DWR Surplus Energy Percentage.

Net Utility Supply is Utility Supply quantity used for the determination of DWR Surplus Energy Percentage less Utility share of surplus energy quantity, which is total surplus energy less the DWR share of surplus energy quantity.

In the Event of any conflict between the formulas and procedures in this Exhibit C and the formulas and procedures in Utility’s Servicing Arrangement, those contained in Utility’s Servicing Arrangement shall govern.

II. Bilateral Settlement

Under the Contract Allocation Order DWR remains financially obligated for the Contracts. DWR will continue to pay suppliers and this requires DWR to apply appropriate procedures and controls to ensure that payments are made accurately and in a timely manner. Information supporting Contract settlements will be provided by Utility, and additional information may also be required to address contract performance issues (such as availability and other items as discussed in Exhibit E) and to allow DWR to settle disputes in an appropriate manner.

DWR requires sufficient information to support payment requests so that it can meet the accountability requirements of the State Controller’s Office and the State Auditor, and simultaneously comply with the applicable statutes concerning disbursement of public monies. The Utility shall reconcile schedules with suppliers invoice. DWR shall make the associated payments to suppliers after performing its verification, and Utility will provide the data as required in Exhibit F to allow it to perform these duties in a timely manner as set forth herein.

DWR shall continue to perform validation of settlement data and invoices and pay Contract costs directly to the suppliers upon validation of invoices.

III. Fuel Cost Verification and Settlement

Exhibit B provides a detailed discussion concerning Utility's responsibility for fuel management. DWR will continue to pay fuel suppliers and others involved in providing fuel management services for the delivery of fuel for those DWR Contracts where the Fuel Option has been elected. Consistent with the above, Utility will perform settlements activities to reconcile quantities and associated charges, and DWR will perform verification, audit and monitoring to support its disbursement of funds. Utility will comply with the requirements contained in Exhibit F to provide DWR with the necessary information to apply appropriate procedures and controls to ensure that fuel payments and payments for fuel management services are made accurately and in a timely manner and to allow DWR to settle disputes in an appropriate manner.

SDG&E EXHIBIT D

ISO SCHEDULING COORDINATOR CHARGES

ISO SCHEDULING COORDINATOR CHARGES

The financial obligation for ISO charges incurred after the Effective Date will be allocated to the Utility, unless otherwise extended under the existing letter agreement with DWR related to the ISO charges and any future Applicable Commission Orders. Unless specifically provided in Exhibit C hereto, all ISO charges incurred after the Effective Date attributable to load and resources shall be the responsibility of Utility.

Utility agrees that any refunds, reruns or credits through the ISO attributable to costs incurred by DWR for trade dates beginning February 7, 2001 up to the Effective Date shall belong to DWR and Utility shall take all necessary action to remit such refunds or credits to DWR within reasonable time. In addition, DWR shall be responsible for any ISO charges incurred during this period pursuant to the existing letter agreement between the Parties. Utility shall invoice DWR for such ISO charges within a reasonable period of time and DWR shall pay Utility for such ISO charges within 10 days of receipt of such invoice. Without making any assurances as to Commission action, DWR agrees to take appropriate action to ensure that such refunds or credits are applied consistent with DWR's Revenue Requirement cost allocation method for the same trade dates.

SDG&E EXHIBIT E

CONTRACT MANAGEMENT AND
ADMINISTRATION PROTOCOLS

CONTRACT MANAGEMENT AND ADMINISTRATION PROTOCOLS

DWR will retain all contract management, administration and monitoring responsibilities for the Contracts, including due diligence, performance testing, contract performance assessment, formal correspondence and notifications with Suppliers, exercise of contract options, contract interpretation and dispute resolution, and financial reporting. Upon development by Utility and DWR in the future to a transition plan that transfers the Due Diligence and Performance Test Monitoring functions set forth in this Exhibit E from DWR to the Utility, , including a transition schedule, and a transition plan , Utility agrees to submit such transition plan to the Commission as an amendment to this Exhibit E for approval by the Commission. Upon agreement of the Parties to an acceptable transition plan and the Commission approval of Utility submitted transition plan, the agreed upon functions will transfer from DWR to the Utility (“the Transition Date” 48;).

I. Due-Diligence

The Due Diligence function assesses the progress of permitting, construction and performance capability of new generating facilities under to the Contracts. Due Diligence includes (i) monitoring activities associated with the development, construction, and performance of new generating facilities; (ii) identification and tracking of key projects milestones including permitting, equipment procurement, construction, commissioning, and performance testing; (iii) coordination with permitting agencies and the Suppliers, review of project documents, physical inspections, and witnessing of acceptance tests, (iv) verification that the new facilities can perform in a manner that is consistent with the obligations under the appropriate Contract and (v) review and approval of commercial operation dates and documentation.

II. Performance Test Monitoring

A. Annual Performance Tests

Annual Performance Tests verify ongoing compliance with the Contracts and establish plants capacities and efficiencies that are used to calculate contract payments, either for capacity or energy. Annual Performance Test responsibilities generally consist of (i) verification of testing procedures, (ii) witness of performance tests, (iii) review of test results and test reports for compliance with Contract terms and conditions, and (iv) identification of contract non-compliance for dispute resolution with the Supplier. Prior to the Transition Date, the Utility will cooperate and assist DWR with scheduling of upcoming Annual Performance Tests, and the Utility may have its staff witness such testing.

B. Scheduled Performance Tests

Prior to the Transition Date, on occasion, DWR may request that Utility schedule a peaking or dispatchable generating facility for testing (to assure that such generation facility is available according to the terms of the contract between such generation facility and DWR). The utility will cooperate and shall coordinate with the DWR on a mutually acceptable date for performance of the test. On the date agreed upon, the Utility shall schedule the specified facility or unit for operation to test the availability, reliability, and performance of the scheduled unit.

C. Test Procedures and Protocols

Prior to January 1, 2003, Utility shall meet with DWR staff to review, discuss, and verify test procedures and protocols developed by DWR.

III. Contract Performance Assessments

DWR shall continue to perform an after-the-fact review ("Performance Assessment") of each Contract on a periodic basis. The purpose of the Performance Assessment is to assess, analyze, and document the overall performance of each Supplier, assure that the Supplier is satisfying the terms and conditions of their respective contract(s), and identify potential issues, disputes, and other matters that may require corrective action by either Utility or DWR as part of contract administration.

IV. Other Administrative Matters

A. Correspondence with Suppliers

Utility and DWR agree to copy each other on all written correspondence and written notifications sent to or received from a Supplier of an Allocated Contract or Interim Contract related to the activities described in this Exhibit E. The Parties agree to provide additional information as requested related to verification and support of the activities described in this Exhibit E.

B. Reports

Results of the activities described in this Exhibit E will be documented by DWR in written reports ("Reports") and shall be discussed periodically between DWR and the Utility. Such Reports may include, but are not limited to, summary of test results, status of projects, recommendations for operational changes, procedural changes, dispute resolution, and results of Performance Assessments. Such Reports, documentation, or other material developed by either Party shall be shared and reviewed with the other Party on a timely basis.

SDG&E EXHIBIT F

DWR DATA REQUIREMENTS FROM UTILITY

**EXHIBIT F
DWR DATA REQUIREMENTS FROM UTILITY**

To effectively fulfill its legal and financial responsibilities, DWR requires access to standard and reliable information on a timely basis.

Post transition, DWR remains statutorily and contractually obligated to collect, account for, and remit funds for the power it provides to the IOU's retail customers. More specifically, post transition, DWR must have readily available access to information that is currently available in-house due to DWR's operational responsibilities. The primary source of this information post transition will be the three utilities.

The information being requested is required to:

- Verify, audit, monitor and authorize payment for bilateral invoices for allocated DWR contracts;
- Manage disputes between DWR and the bilateral counter parties; • Verify, audit, monitor and authorize payment for fuel procured by the utilities relating to DWR allocated contracts;
- Verify, audit, monitor, collect and IOU remittances relating to repayment of Energy Supplied and Bond Funds;
- Forecast, manage and monitor DWR monetary requirements and associated accounts;
- Ongoing reporting responsibilities under AB1X, the rate agreement and bond indenture;
- Audit and monitor long-term contract performance and associated risks prior to contract assignment or novation.

The table below contains a brief description of the information to be provided by Utility, the frequency for which Utility shall provide such information to DWR, and the effective date for when Utility shall provide such information to DWR.

The following table outlines DWR data requirements relating to general contract/trade information:

Contract/Trade

Requirement	Description	Freq	Effective	Delivery Method
Surplus Energy Sales Plan	Monthly utility's surplus energy sales plan updated weekly. Sales plan will outline all surplus sales contemplated by the utility, including but not limited to balance of month, weekly balance of week and other short-term sales.	Monthly plan, updated weekly	1/1/2003	Email/Fax - Standard Form TBD
Surplus Energy Sales	Contract/Deal information relating to the forward sale of DWR surplus energy. This would include but is not limited to Counterparty, Term (Start/End Date), Hourly Contract Volumes, Hourly Price, Location, any fee information, etc.	When executed	All surplus forward sales entered into after 1/1/2003	Email/Fax - Standard Form TBD

The following table outlines DWR data requirements relating to long-term contract schedule information and associated bilateral invoices:

Schedule/Bilateral Invoice

Requirement	Description	Freq	Effective	Delivery Method
Final Schedule Volumes, Long Term Contracts by counterparty, by day.	<p>For all long-term contracts allocated to the utilities and any surplus energy sales, the detailed hourly final schedule volumes and pricing information by contract</p> <p>Final schedule volumes are defined as the final volume for the hour at the completion of the real-time market. These volumes represent the hour ahead scheduled volumes adjusted to include any real-time market adjustments by the ISO. Absent any real time adjustments, this data will be the same as Final Hour Ahead Schedule.</p> <p>File should include, but is not limited to; Utility identifier, file type identifier (i.e. final, HA), SC identifier, counterparty identifier, contract identifier, schedule type identifier (i.e. sale), delivery location, date, volume scheduled by hour, price per hour.</p>	T+1 (Daily)	1/2/2003	Secure Electronic - Format TBD
Hour Ahead Schedule Volumes, Long Term Contracts	<p>For all long-term contracts allocated to the utilities and any surplus energy sales, the detailed hour ahead final schedule volumes and pricing information by contract, by counterparty, by day.</p> <p>Format and data elements of the file provided should be identical to what was specified above in Final Schedule volumes.</p> <p>(Note: This cannot be the ISO Hour Ahead Final Schedule template as this file does not provide transactional level details but consolidates/collapses information based on certain ISO rules.)</p>	T+1 (Daily)	1/2/2003	Secure Electronic Format TBD
Reconciled Monthly bilateral invoices	<p>Monthly invoice and supporting documentation for bilateral contracts relating to DWR long-term contracts, reviewed and approved by utility for payment by DWR to the counterparty.</p>	Monthly - 5 business days prior to payment due date	Feb 03	TBD

In the event of a bilateral invoice dispute with the counterparty, DWR may also request from the utility the additional schedule information. This information would be in the same format as outlined in the table above. As mentioned above, DWR is requesting transactional level information and not the associated ISO template files due to the consolidation/collapsing of schedules with the template files. Schedule information required would include:

- Hour Ahead Preferred Schedule Volumes
- Day Ahead Final Schedule Volumes
- Day Ahead Adjusted Schedule Volumes
- Day Ahead Revised Preferred Schedule Volumes
- Day Ahead Preferred Schedule Volumes

The following table outlines DWR data requirements relating to the verification of fuel costs. It assumes DWR will retain legal and financial responsibility for gas and related services while the utility will perform administrative and operational responsibilities as outlined in Exhibit B.

Fuel Costs

Requirement	Description	Freq	Effective	Delivery Method
Generator fuel plan proposal	Proposal and supporting analysis on whether or not to accept or reject of generator fuel plan.	Based on individual contracts	Jan-03	TBD
Utility Fuel Procurement Plan	Utility will provide a bi-annual fuel procurement plan for utility supplied fuel.	Bi-Annual	Jan-03	TBD
Tolling agreement Settlement Report	Monthly report on each DWR tolling agreement that includes but is not limited to: tolling contract identifier, who provided the gas (generator/utility) and daily quantity of gas supplied.	Monthly	Feb-03	Electronic Format TBD
Reconciled Monthly Gas Invoice	Suppliers monthly invoice and supporting documentation for fuel procurement relating to DWR tolling agreements, reviewed and approved by Utility for payment by DWR to the supplier.	Monthly - 5-business days prior to payment due date	Feb-03	Electronic - Format TBD
Gas Transportation Contract Information	Details relating to the Utility negotiated firm and/or interruptible transportation agreements for DWR review and authorization.	When executed	All contracts effective after 1/1/2003	E-mail/Fax Standard Form TBD
Gas Storage Contract Information	Details relating to the Utility/negotiated firm and/or interruptible storage agreements for DWR review and authorization.	When executed	All contracts effective after 1/1/03	E-mail/Fax Standard Form TBD
Reconciled Monthly gas transportation invoices	Suppliers monthly invoice and supporting documentation for natural gas transportation costs relating to DWR tolling agreements, reviewed and approved by utility for payment by DWR to the supplier.	Monthly - 5-business days prior to payment due date	Feb-03	Electronic - Format TBD
Reconciled Monthly gas storage invoices	Supplier's monthly invoice and supporting documentation for storage relating to DWR tolling agreements, reviewed and approved by utility for payment by DWR to the supplier.	Monthly - 5-business days prior to payment due date	Feb-03	Electronic - Format TBD

The following table outlines additional DWR data relating to utility revenue remittance:

Utility Revenue Remittance

Requirement	Description	Freq	Effective	Delivery Method
Utility ISO Preliminary Settlement Statement and Supporting Files	The complete Utility preliminary settlement statement and supporting files in original Utility template format. This information also required for remittance calculation purposes.	T + 38 business days	Ongoing	Secure Electronic-ISO Template Direct from ISO
Utility Final Settlement Statement and Supporting Files	The complete Utility final settlement statement and supporting files in the Utility original template format. This information also required for remittance calculation purposes.	T + 45 business days	Ongoing	Secure Electronic-ISO Template Direct from ISO
Scheduled Retail Load by hour	Utilities scheduled or forecasted retail load information by hour, by day.	T + 1	1/1/2003	TBD
Hourly aggregate final schedule of Utility's resource portfolio	Utilities total hourly scheduled volumes for the entire Utilities portfolio. This is an aggregate total for the day, by hour and represents the total volume supplied by the utility.	T+1 (Daily)	1/2/2003	TBD
Hourly Distribution Loss Factor	Utility DLF % by hour	When changes required	1/1/2003	TBD
Estimated DWR remittance %	Utility estimated remittance percentage.	When changes required	1/1/2003	TBD
Energy Sales billed (kWh)*	Daily kWh billed by Utility to end users	Daily	Ongoing	Standard DWR Form/File (TBD)
DWR Power Charge volumes*	Daily DWR kWh billed by Utility to end users	Daily	Ongoing	Standard DWR Form/File (TBD)
DWR Power Charge billed to Customer*	Daily dollar amount of DWR Power Charge being billed to customer including identification of dates billed.	Daily	Ongoing	Standard DWR Form/File (TBD)
DWR Power Charge Remitted to DWR*	Daily dollar amount being remitted by Utility to DWR for the DWR Power Charge collected from customers including identification of dates billed.	Daily	Ongoing	Standard DWR Form/File (TBD)

*Note that this data is simply the supporting information that should be provided together with the daily remittance of customer revenues.

As various Commission proceedings are finalized DWR will also require specific data related to Bond Charge remittances and to Direct Access exit fees. The specific nature and format of this data will be agreed with between the utilities and DWR.

The following table outlines DWR data requirements relating to resource information:

Resource Information				
Requirement	Description	Freq	Effective	Delivery Method
Load and Resource Assessment Studies	Copies of Utilities annual and quarter load and resource assessment studies as provided to the PUC.	Annually and quarterly	Jan-03	TBD
Update Description of Resources	Updated description of resources as set out in Exhibit A. Utilities will also provide timely updates on significant resource changes as outline in Exhibit A.	Annually or when significant changes	Jan 1, 04	TBD
Unit Commitment Studies	As provided to the PUC.	Weekly	Jan-03	TBD
DWR Non-Dispatched Resources Report	Report of Resources that were economic to run, but were not dispatched.	Weekly	1/1/2003	TBD
DWR Resource Unavailability Form	Utility notification to DWR for resources within an allocated contracts becoming unavailable, or scheduled to become unavailable. Note: This information could be provided directly from the generator to DWR and would therefore not be required from Utility.	As outlined in operating agreement	1/1/2003	Standard DWR Form - Email/Fax

Upon the reasonable request of DWR, Utility will provide to DWR any information in respect of Utility that is applicable to the rights and obligations of the Parties under this Agreement or any material information that is reasonably necessary for DWR to monitor and manage their risks and perform their fiduciary responsibilities. Upon the reasonable request of Utility, DWR will provide to Utility any information in respect of DWR that is applicable to the rights and obligations of the Parties under this Agreement or any material information that is reasonably necessary for Utility to operationally administer Contracts under this Agreement.

For the information identified above, or any additional information identified through the term of this Agreement, standard submission formats will be used or be developed by DWR for use by each of the investor-owned utilities, including Utility. In the cases where the information requirements result in a large volume of data (e.g., schedule information), DWR will use or develop standard detailed file definitions for use by all of the investor-owned utilities, including Utility. Data will be submitted to DWR by Utility

through a secure electronic communication medium, unless other medium is reasonably requested by DWR.

As a result of the relative short implementation timeframes, it is anticipated an interim delivery protocol (e.g., comma delimited file via email, compact diskettes) will be utilized until the final data transmission media are in place. DWR shall work jointly with Utility to ensure the required data is available by January 1, 2003.

In the event that DWR incurs additional costs, including but not limited to penalties, interest or other such costs, due to Utility's failure to timely provide the data set forth in this Exhibit F, any such direct cost increase invoiced or assessed to DWR shall be borne by Utility.

The provisions of this Exhibit are subject to annual review by DWR and Utility to ensure that data reporting remains relevant and useful.

2006 SERVICING ORDER

CONCERNING

**STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES**

And

SAN DIEGO GAS & ELECTRIC COMPANY

THIS ORDER HAS BEEN ISSUED BY THE CALIFORNIA PUBLIC UTILITIES COMMISSION (“COMMISSION”) FOR USE BETWEEN THE STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES (“DWR”) AND SAN DIEGO GAS & ELECTRIC COMPANY (“UTILITY”).

Date of Commission Approval: March 15, 2007

Effective Date:

**2006 SERVICING ORDER
TABLE OF CONTENTS**

<u>Section Numbers</u>	<u>Title</u>	<u>Page</u>
Section 1.	Definitions.	
Section 2.	Energy Delivery, Surplus Energy Sales and Ownership.	
Section 3.	Billing Services.	
Section 4.	DWR Revenues; Remittance of DWR Revenues.	
Section 5.	Term and Termination; Events of Default.	
Section 6.	Confidentiality.	
Section 7.	Payment of Fees and Charges.	
Section 8.	Records; Audit Rights; Annual Certification.	
Section 9.	Reserved.	
Section 10.	Amendment Upon Changed Circumstances.	
Section 11.	Data Retention.	
Section 12.	Indemnity.	
Section 13.	Limitations on Liability.	
Section 14.	Miscellaneous.	

Attachments, Appendices and Annexes

Service Attachment 1 – Utility Billing Services		SA1-1
Service Attachment 2 – DWR Surplus Energy Sales Revenues Remittance		SA2-1
Attachment A -	Representatives and Contacts	A-1
Attachment B -	Remittances of DWR Charges	B-1
Appendix A-1:	Bill Determination - Bundled Customer Bond Charge	A-1-1
Appendix A-2:	Bill Determination - Bundled Customer - Power Charge	A-2-1
Appendix B-1:	Bill Determination - Direct Access Bond Charge	B-1-1
Appendix B-2:	Bill Determination - Direct Access Power Charge	B-2-1
Appendix C-1:	Bill Determination - Customer Generation Departing Load Bond Charge	C-1-1
Appendix C-2:	Bill Determination - Customer Generation Departing Load Power Charge	C-2-1
Appendix D-1:	Bill Determination - Municipal Departing Load Bond Charge	D-1-1
Appendix D-2:	Bill Determination - Municipal Departing Load Power Charge	D-2-1
Appendix E-1:	Bill Determination - Community Choice Aggregation Bond Charge	E-1-1
Appendix E-2:	Bill Determination - Community Choice Aggregation Power Charge	E-2-1
Attachment C -	Sample Daily and Monthly Reports	C-1
Attachment D -	[Reserved]	D-1
Attachment E -	Additional Provisions	E-1
Attachment F -	Calculation Methodology for Reduced Remittances Pursuant 20/20 Program	F-1
Attachment G -	SDG&E Fee Schedule	G-1
Attachment H -	[Not Applicable]	H-1

2006 SERVICING ORDER

THIS 2006 SERVICING ORDER (this “Servicing Order”) concerns the State of California Department of Water Resources (“DWR”), separate and apart from its powers and responsibilities with respect to the State Water Resources Development System, and San Diego Gas & Electric Company, a California corporation (“Utility” or “SDG&E”). This Servicing Order amends and restates that certain 2003 Servicing Order adopted pursuant to the Commission Decision 02-12-070 on December 19, 2002 (the “2003 Servicing Order”), further amending and restating that certain First Amended and Restated Servicing Agreement, between DWR and Utility, approved by the Commission on April 22, 2002 pursuant to Decision 02-04-048 SDG&E, as amended by the Amendment No. 1 thereto, approved by the Commission on July 17, 2002. DWR and Utility are sometimes collectively referred to as the “Parties” and individually referred to as a “Party.”

BACKGROUND

A. Under the Act, DWR is authorized to sell electric power and energy to Customers. Amounts payable by DWR under this Servicing Order are payable solely from the Department of Water Resources Electric Power Fund established pursuant to Section 80200 of the California Water Code or other appropriated amounts legally available therefor.

B. Utility is engaged in, among other things, the transmission and distribution of electrical services to certain of the Customers in its service territory, the billing and collection for electrical services and other charges, and the ownership, installation and reading of electrical meters for certain of such Customers.

C. Under the Act, DWR is authorized to enter into contracts with the Utility to provide transmission and distribution of all power sold or made available for sale by DWR to certain of the Customers, and, upon request of DWR, the Commission has ordered Utility to provide such transmission and distribution services, including the provision of billing, collection and related services, as agent for DWR, on terms and conditions that reasonably compensate Utility for its services.

D. On June 23, 2001, the Parties entered into a Servicing Agreement, as amended and approved by the Commission pursuant to Decision 01-09-013, to set forth the terms under which Utility will provide for the transmission and distribution of DWR Power as well as billing and related services.

E. On February 21, 2002, the Commission adopted Decision 02-02-051, approving and adopting a Rate Agreement between the Commission and DWR.

F. On April 22, 2002, the Commission approved the First Amended and Restated Servicing Agreement, pursuant to Decision 02-04-048, to comply with Commission Decision 01-09-013 to implement certain provisions of the Rate Agreement. Said First Amended and Restated Servicing Agreement was further amended by Amendment No. 1 approved by the Commission on July 17, 2002, pursuant to Decision 02-07-038 to provide for a separate line item on the Utility Bills for Bond Charges and to implement the 2002 20/20 Program as ordered by the Commission pursuant to Resolution E-3770.

G. On September 19, 2002, the Commission adopted Decision 02-09-053 relating to the allocation of DWR’s power contracts, ordering the Parties to modify the previously approved servicing agreement to reflect the new operational arrangements under said contract allocation decision issued by the Commission.

H. On December 19, 2002, pursuant to Decision 02-12-069, the Commission adopted an Operating Order which established the respective rights and responsibilities with respect to the Utility’s administration of the Allocated Contracts and, on that same date, the Commission further adopted Decision 02-12-070, imposing the 2003 Servicing Order on the Utility.

I. Through other proceedings, the Commission also determined the cost responsibility of certain Customers, other than Bundled Customers, for Bond Charge and the ongoing DWR power charge component.

J. Section 10(a) of the 2003 Servicing Order provided that Parties are to negotiate appropriate amendments to effectuate the required changes upon certain events, including the implementation of Bond Charges and the imposition of a DWR Charge upon customers of ESPs or other third-parties.

K. In Appendices C-2, D-1, D-2, E-1 and E-2 to Attachment B and in reporting templates contained in Attachment C to this 2006 Servicing Order, DWR has identified and included certain Customer Types who do not currently remit DWR Charges. The Utility and DWR acknowledge that the collection and remittance of DWR Charges from such Customer Types will not begin until Applicable Commission Orders that require the Utility to perform such services are final and effective, to the extent that Utility is involved in the collection of DWR Charges.

L. DWR desires to amend the 2003 Servicing Order to reflect the remittance methodologies and obligations applicable to DWR Revenues, consisting of DWR Charges collected from Customers and DWR Surplus Energy Sales Revenues, all as previously provided in Applicable Commission Orders and State law.

NOW, THEREFORE, DWR agrees, and Utility is ordered to do as follows:

Section 1. Definitions.

The following terms, when used herein (and in the attachments hereto) with initial capitalization, shall have the meaning specified in this Section 1. Certain additional terms are defined in the attachments hereto. The singular shall include the plural and the masculine shall include the feminine and neuter, and vice versa. “Includes” or “including” shall mean

“including without limitation.” References to a section or attachment shall mean a section or attachment of this Servicing Order, as the case may be, unless the context requires otherwise, and reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented or restated through the date as of which such reference is made (except as otherwise specifically provided herein). Unless the context otherwise requires, references to Applicable Laws or Applicable Tariffs shall be deemed references to such laws or tariffs as they may be amended, replaced or restated from time to time. References to the time of day shall be deemed references to such time as measured by prevailing Pacific Time.

ACH - Automated Clearing House, a nationwide payment and collection system which provides for the electronic distribution and settlement of funds.

Act - Chapter 4 of Statutes of 2001 (Assembly Bill 1 of the First 2001-02 Extraordinary Session) of the State of California, as amended from time to time.

Additional Charges - Additional Charges shall have the meaning set forth in Section 7.2 below.

Aggregate Power - DWR Power, Utility-Provided Electric Power, and, subject to Section 4.3 of the Rate Agreement, ESP Power or other third-party provided Power for customers located within that Utility’s service territory, to the extent DWR Charges are authorized to be imposed on any such Power by Applicable Commission Orders or State or federal law.

Allocated Contracts - The long-term power purchase agreements, listed on Schedule 1 of the Operating Order, allocated to Utility under the Contract Allocation Order.

Applicable Commission Orders - Such rules, regulations, decisions, resolutions, opinions or orders as the Commission may lawfully issue or promulgate from time to time, which further define the rights and obligations of the Parties under or in connection with the Servicing Order, including any advice letters in furtherance thereof that are approved by the Commission.

Applicable Law - The Act, Applicable Commission Orders and any other applicable statute, constitutional provision, rule, regulation, ordinance, order, decision or code of a Governmental Authority.

Applicable Tariffs - Utility’s tariffs, including all rules, rate schedules, contracts, and preliminary statements, governing electric energy service to Customers in Utility’s service territory, as filed with and approved by the Commission and, if applicable, the Federal Energy Regulatory Commission.

Assign(s) - Assign(s) shall have the meaning set forth in Section 14.3(c).

Billing Services - mean Utility Billing Services.

Bond Charges - Bond Charges shall have the meaning set forth in the Rate Agreement and shall include Bond Charges to be remitted by Customers, including Bundled Customers, Direct Access Customers, Customer Generation Departing Load Customers, Municipal Departing Load Customers and Community Choice Aggregation Customers who are required to remit Bond Charges under Applicable Law.

Bundled Customers - Customers who purchase Power from Utility.

Bureau - Bureau shall have the meaning set forth in Section 8.2(b).

Business Days - Regular Monday through Friday weekdays which are customary working days, excluding State government holidays and holidays established by Applicable Tariffs; provided, however, the terms “**DWR Business Days**” or “**Utility Business Days**” shall refer to Business Days that are customary working days as related to DWR or Utility, as appropriate.

Business Hours - The period on a Business Day from 9:00 a.m. until 5:00 p.m.

CERS - California Energy Resources Scheduling, a division of DWR.

Charges - DWR Charges and Utility Charges.

Claims - Claims shall have the meaning set forth in Section 12.

Commission - The California Public Utilities Commission.

Community Choice Aggregation Customers or CCA Customers - Customers whose energy requirements are served by governmental entities formed by cities and counties pursuant to Assembly Bill 117 (2002 Stats., ch. 838), all as further provided in Commission Decision 04-12-046 adopted on December 16, 2004, and Commission Decision 05-12-041 adopted on December 15, 2005, as such decisions may be amended or supplemented from time to time.

Confidential Information - Confidential Information shall have the meaning set forth in Section 6.1(c).

Contract Allocation Order - Decision 02-09-053 of the Commission, adopted on September 19, 2002, as such Decision may be amended or supplemented from time to time by the Commission.

Contracts - The Allocated Contracts.

Cost Responsibility Surcharges or CRS - For purposes of this 2006 Servicing Order, "Cost Responsibility Surcharges" or "CRS" refers to DWR Charges imposed under and pursuant to Applicable Law on Customers for the recovery of costs other than as related to the contemporaneous provisions of electrical products or services, including but not limited to (i) Bond Charge authorized or required to be imposed and (ii) any cost determined to be the ongoing DWR power charge component to be paid by such Customer or any other such similar charge. The Parties agree that under Applicable Commission Orders relating to Cost Responsibility Surcharges, the Commission has dealt with several other components to be collected by Utility, including such components which are the property of the Utility, and further agree that the use of the term Cost Responsibility Surcharges or CRS in this 2006 Servicing Order is only intended to include the components of CRS that are the property of DWR.

Customer - A retail end-use customer that purchases (or is deemed to purchase) Aggregate Power, as established by Applicable Law.

Customer Generation Departing Load Customers or CGDL Customers - Customers who (a) discontinue or reduce their purchases of Utility or Direct Access services, (b) purchase or consume electricity supplied and delivered by "Customer Generation" to replace the Utility or Direct Access purchases; and (c) remain physically located at the same location or elsewhere within the Utility's service territory, all as further provided in Commission Decision 03-04-030 adopted on April 3, 2003, as such decision may be amended or supplemented from time to time.

Customer Type - Refers to Customers who may be Bundled Customers, Direct Access Customers, Customer Generation Departing Load Customers, Municipal Departing Load Customers or Community Choice Aggregation Customers.

Daily Remittance - Daily Remittance shall have the meaning set forth in Attachment B hereto.

Daily Remittance Report - Daily Remittance Report shall have the meaning set forth in Attachment B hereto and shall be in the form set forth in Attachment C hereto.

Day-Ahead Market - The daily ISO forward market for which energy and ancillary services are scheduled for delivery on the following calendar day.

Delinquent Payment - Delinquent Payment shall mean the payment of any amount due under this Servicing Order after the time when payment is required to be made hereunder, as further described and/or limited hereunder.

Direct Access Customers or DA Customers - Customers who subscribe to direct access service from Electric Service Providers, all as further provided in Commission Decision 02-03-055 adopted on March 21, 2002, as such decision may be amended or supplemented from time to time.

Discloser - Discloser shall have the meaning set forth in Section 6.1(c).

DWR Charges - Bond Charges, Power Charges and any other amounts authorized to be collected from Customers pursuant to the Rate Agreement, Applicable Commission Orders and Applicable Law in order to meet DWR's revenue requirements under the Act.

DWR Power - The electric power and energy, including but not limited to capacity and output, supplied by DWR to Bundled Customers pursuant to the Act, Applicable Commission Orders and State and federal law.

DWR Revenues - Those DWR Charges collected from Customers required to be remitted to DWR through Utility Bills or Non-Utility Bills, as the case may be, and DWR Surplus Energy Sales Revenues.

DWR Surplus Energy Sales Revenues or Surplus Revenues - Revenues received by Utility for the sale of surplus Power to third parties that Utility is required to remit to DWR, consistent with the Contract Allocation Order and Exhibit C of the Operating Order.

DWR's Agent - DWR's Agent shall have the meaning set forth in Section 8.2(b).

Effective Date - The date this Servicing Order is effective in accordance with Section 14.16, as such date is set forth on the cover page hereof.

Electrical Corporation - Electrical Corporation shall have the meaning ascribed thereto in Section 218 of the Public Utilities Code, including any successor and assign thereof.

Electric Service Provider or ESP - Electric Service Provider means an entity that provides electrical service to one or more retail customers located within the Service Areas of Pacific Gas and Electric Company, Southern California Edison Company, or San Diego Gas & Electric Company or any of their respective successors, except that Electric Service Provider excludes: DWR, any other public agency to the extent that it offers electrical service to customers within its jurisdiction or within the service territory of a local publicly owned electric utility, and Electrical Corporations. Electric Service Provider includes the unregulated affiliates and subsidiaries of an Electrical Corporation.

ESP Customers - Customers served by ESP Power.

ESP Power - Power provided by an Electric Service Provider to Customers.

Event of Default - Event of Default shall have the meaning set forth in Section 5.2.

Final Hour-Ahead Schedule - The final schedule of DWR Power submitted by DWR and Utility and published by the ISO for the Hour-Ahead Market.

Fund - Fund shall have the meaning set forth in Section 13.2.

Fund Type - Refers to Bond Charges or Power Charges.

Governmental Authority - Any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to a government, including the Commission.

Governmental Program - Any program or directive established by Applicable Law which directly or indirectly affects the rights or obligations of the Parties under this Servicing Order and which obligates or authorizes DWR to make payments or give credits to Customers or other third parties under such programs or directives.

Hour-Ahead Market - The ISO forward market for which energy and ancillary services are scheduled for subsequent hours for delivery on the current calendar day.

Indemnified Party - Indemnified Party shall have the meaning set forth in Section 12.

Indemnifying Party - Indemnifying Party shall have the meaning set forth in Section 12.

Insolvency Event - With respect to Utility, (a) the filing of a decree or order for relief by a court having jurisdiction in its premises or any substantial part of its property in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for it or for any substantial part of its property, or the ordering of the winding-up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive calendar days; or (b) the commencement by it of a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by it to the entry of an order for relief in an involuntary case under any such law, or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for it or for any substantial part of its property, or the making by it of any general assignment for the benefit of creditors, or the taking of action by it in furtherance of any of the foregoing.

ISO - The California Independent System Operator Corporation.

Late Payment Rate - The Prime Rate plus 3%.

Municipal Departing Load Customers or MDL Customers - Customers who departed Utility service on and after February 1, 2001 to take service from a municipal utility, all as further provided in Decision 03-07-028 adopted on July 10, 2003, as such decision may be amended or supplemented from time to time.

Non-Utility - any third-party service provider under Applicable Tariff or servicing arrangement with the Utility to perform any portion of Services contemplated under this Servicing Order, including but not limited to ESPs and other third-party energy providers.

Non-Utility Bill - A bill calculated and prepared by the Utility but either (i) presented to a Non-Utility or (ii) consolidated and presented by a Non-Utility to a Customer, in either case, under and pursuant to a servicing arrangement and/or Applicable Tariff or Applicable Law which facilitates the collection of any component of DWR Charges.

Operating Order - The Operating Order adopted on December 19, 2002, pursuant to Commission Decision 02-12-069, including that certain Operating Agreement executed on April 17, 2003, by and between DWR and Utility, as the same may be amended from time to time and approved by the Commission.

Operating Order Effective Date - The date that the Operating Order is effective in accordance with the provisions thereof.

Power - Electric power and energy, including but not limited to capacity and output.

Power Charges - Power Charges shall have the meaning set forth in the Rate Agreement, and shall include Energy Payments as referred to in Exhibit C of the Operating Order and shall further include the ongoing DWR power charge component of the CRS imposed by the Commission upon certain customers for the above-market costs of DWR Power.

Prime Rate - The rate which Morgan Guaranty Trust Company of New York, or its successor, announces from time to time in New York, New York as its prime lending rate, the Prime Rate to change when and as such prime lending rate changes. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer.

Rate Agreement - The Rate Agreement between DWR and the Commission adopted by the Commission on February 21, 2002 pursuant to Commission Decision 02-02-051, as the same may be amended and adopted by subsequent Commission

proceedings.

Recipient - Recipient shall have the meaning set forth in Section 6.1(c).

Recurring Fees - Recurring Fees shall have the meaning set forth in Section 7.1.

Remittance - A payment of DWR Charges by Utility to DWR or its Assign(s) and all DWR Surplus Energy Sales Revenues, in accordance with this Servicing Order.

Scheduling Coordinator-to-Scheduling Coordinator Trade - Schedules for energy transferred from one ISO scheduling coordinator to another. Such schedules are deemed delivered by the ISO upon publication by the ISO of the Final Hour-Ahead Schedules.

Service Area - Service Area means the geographic area in which an Electrical Corporation distributes electricity.

Services - Billing Services, metering services and meter reading services which may be performed by Utility or Non-Utility, as the case may be, and related collection, remittance and other services provided by Utility for DWR pursuant to this Servicing Order.

Servicing Order or **2006 Servicing Order** - This 2006 Servicing Order including all attachments hereto.

State - The State of California.

Set-Up Fee - Set-Up Fee shall have the meaning set forth in Section 7.1.

Term - The term of this Servicing Order as set forth in Section 5.1.

20/20 Program - 20/20 Program shall have the meaning set forth in Section 4.3.

Utility Bill - A bill calculated, prepared and presented by Utility to a Customer that includes both the Customer's Utility Charges and DWR Charges; provided, however, that to the extent appropriate under Applicable Commission Orders, all Utility Bills sent to Customers shall reflect DWR Charges on a consolidated basis.

Utility Billing Service - Billing service through the use of Utility Bills or Non-Utility Bills as described in Service Attachment 1 to this Servicing Order.

Utility Charges - Charges incurred by a Customer for electricity-related services and products provided by Utility to the Customer, as approved by the Commission and, as applicable, the Federal Energy Regulatory Commission or other Governmental Authority (including, but not limited to, any Competition Transition Charges or Fixed Transition Amount Charges owing to Utility or its affiliates, as those terms are defined under the California Public Utilities Code). Utility Charges shall not include DWR Revenues or charges for retail natural gas sales.

Utility-Provided Electric Power - Utility-Provided Electric Power shall refer to electricity from Utility's own generation, qualifying facility contracts, other power purchase agreements and bilateral contracts. Utility-Provided Electric Power shall not include DWR Power, ESP Power or any third-party provided power for Customers.

The terms used in the attachments, but not specifically defined herein or elsewhere in this Servicing Order, should be understood by the Parties to have their ordinary meanings.

Section 2. Energy Delivery, Surplus Energy Sales and Ownership.

2.1. Delivery of Power.

Pursuant to the Act and Applicable Commission Orders, Utility is ordered to transmit, or provide for the transmission of, and distribute DWR Power to Bundled Customers over Utility's transmission and distribution system in accordance with Applicable Law, Applicable Tariffs and any agreements between the Parties.

2.2. Data and Information Communications Procedures.

(a) Prior to the Operating Order Effective Date, Utility estimated customer usage and Utility-retained generation for a given trade day and communicated the net of such estimate to DWR by 7:00 a.m. on the preceding Utility Business Day. In the event that DWR observed a persistent deviation between estimated customer usage and actual customer usage, or between estimated Utility-retained generation and actual Utility-retained generation, DWR requested Utility to review, and Utility promptly commenced the review of, Utility's forecast methodology and reported the results of such review to DWR; provided, however, that Utility had no obligation to correct or minimize such deviation except as provided in Attachment H of the 2003 Servicing Order.

(b) Prior to the Operating Order Effective Date, DWR agreed to send to Utility in writing each day the Scheduling Coordinator-to-Scheduling Coordinator Trade between DWR and Utility. This information was delivered no later than 9:30 a.m. for trades in the Day-Ahead Market for the following day, and no later than two hours and twenty minutes prior to the start of the delivery hour for trades in the Hour-Ahead Market. Utility was ordered, and DWR agreed to separately provide

these schedules to the ISO prior to the close of the respective markets. The above deadlines for DWR were set because the ISO Day-Ahead Market closed at 10:00 a.m. on the day before delivery and the ISO Hour-Ahead Market closed two hours before the delivery hour. If these closing times should change, the deadlines for submission of DWR data to Utility were to have changed proportionately, which revised deadlines were to be confirmed in writing by DWR and Utility. DWR agreed that, upon Utility's request, DWR would supply information to Utility substantiating to Utility's reasonable satisfaction (i) the total amount of energy purchased by DWR in the Day-Ahead Market and Hour-Ahead Market; and (ii) other such information that may be required for Utility to verify the DWR Charges, or any component thereof, including information regarding the allocation of such energy among Customers and other third parties to the extent so required.

Notwithstanding the provisions of paragraphs (a) and (b) of this Section 2.2, upon the Operating Order Effective Date, Utility is to schedule and dispatch Power as provided in the Operating Order and the Utility is directed to comply with the data and information communications procedures set forth in the Operating Order.

(c) Consistent with Applicable Commission Orders and as provided elsewhere in this Servicing Order, on and after the Effective Date of this 2006 Servicing Order, Utility shall remit each component of DWR Charges from each Customer Type, all as further provided in Attachment B hereto and each of the Appendices appended thereto. Each component of DWR Charges shall be remitted at the applicable Commission-approved rate. The basis for remittance of DWR Charges shall be amounts collected from Customers, consistent with Applicable Commission Orders. If either Party obtains actual knowledge of a material flaw in the procedures or methods set forth in this Servicing Order, and such flaw has a material adverse effect on (i) the delivery of Services (including, without limitation, the timely and accurate remittance of DWR Charges and DWR Surplus Energy Sales Revenues to DWR), or (ii) the timely and accurate payment to Utility of compensation for Services hereunder, the discovering Party shall bring such flaw to the attention of the other Party within a reasonable time. Upon the delivery of such notice, the Parties shall conduct good faith negotiations to resolve such flaw. Without limiting any other terms, express or implied, of this Servicing Order or any other agreement between the Parties, the Parties acknowledge that the two preceding sentences do not impose an independent obligation to perform any investigation or monitoring to discover any such flaw.

(d) On and after the Operating Order Effective Date, Utility shall perform surplus Power sales consistent with the Contract Allocation Order and the Operating Order. Utility shall also calculate and remit DWR Surplus Energy Sales Revenues consistent with the Contract Allocation Order and the Operating Order. The basis for remittance of DWR Surplus Energy Sales Revenues shall be amounts collected by Utility from third parties for sales of surplus Power, consistent with the principles set forth in Exhibit C of the Operating Order and in accordance with the Contract Allocation Order, all as further provided in Service Attachment 2 hereto.

(e) All data and information to be exchanged between the Parties in connection with scheduling and settlement of transactions shall be in the format agreed to by Utility and DWR and shall, except as otherwise provided by this Servicing Order or Applicable Tariffs, or as may be approved by Utility in its reasonable discretion, be submitted electronically. If a Party receives any information that is unreadable, or contains data that cannot be processed by the receiving Party's system, or is otherwise damaged, such receiving Party shall inform the sending Party of such problem. Until any such problem is corrected, the receiving Party shall not be responsible for processing information received in this condition. The foregoing notwithstanding, a receiving Party shall not be excused from its obligation to process information if the receiving Party cannot read or otherwise process the information sent by the sending Party as a result of defects, errors, bugs, or viruses in the receiving Party's systems or software or due to negligence or wrongful act(s) or failure(s) to act on the part of the receiving Party's employees, agents, independent contractors, subcontractors or assigns.

2.3. ~~DWR Shipments~~ DWR Power, Surplus Power, Utility-Provided Electric Power and

Notwithstanding any other provision herein, and in accordance with the Act and Section 80110 of the California Water Code, DWR shall retain title to all DWR Power sold by DWR to Bundled Customers or any surplus Power sold by Utility on DWR's behalf, in accordance with the terms of the Operating Order and consistent with the Contract Allocation Order. In accordance with the terms hereof and the Operating Order, as the case may be, Utility is acting solely as the servicing agent for DWR with respect to all components of DWR Charges collected from Customers and with respect to sales of surplus Power to third-party purchasers, and nothing in this Servicing Order should be construed to suggest other than that DWR shall retain title to all DWR Charges and DWR Surplus Energy Sales Revenues.

In accordance with the Act and Section 80104 of the California Water Code, upon the delivery of DWR Power to Bundled Customers or the sale of surplus Power to third-party power purchasers made by Utility on behalf of DWR, those Bundled Customers and third-party power purchasers, shall be deemed to have purchased that power from DWR, and payment for any such sale shall be a direct obligation of such Customers or third-party purchasers, as the case may be, to DWR. In accordance with Applicable Law, Cost Responsibility Surcharges are recovered from Direct Access Customers, Customer Generation Departing Load Customers, Municipal Departing Load Customers or Community Choice Aggregation Customers. Utility shall collect and remit such Cost Responsibility Surcharges, all as further provided in this 2006 Servicing Order.

All DWR Revenues and DWR Charges shall constitute property of DWR. To the extent any moneys are received by the Utility during the process of collection, and pending their transfer to DWR, including any amounts collected under Non-Utility Bills and remitted to Utility by a Non-Utility, the moneys shall be held by the Utility in trust for the benefit of DWR (whether or not held together with other monies). Notwithstanding any other provision herein, Utility shall retain title to all Utility-Provided Electric Power supplied by Utility to Customers and all surplus Power provided by Utility.

2.4. Allocation of DWR Power and DWR Surplus Energy Sales Revenues.

DWR Power will be allocated pursuant to the Act and other Applicable Law and Applicable Tariffs. On and after the Operating Order Effective Date, DWR Power and DWR Surplus Energy Sales Revenues shall be allocated consistent with the Contract Allocation Order, and as provided in the Operating Order and this Servicing Order.

2.5. Treatment of ISO Charges.

Prior to the Operating Order Effective Date, the allocation of cost responsibility with respect to certain ISO charges, as between the Parties, have been governed by the Restated Letter Agreement described in Attachment E. On and after the Operating Order Effective Date, this Section shall be superseded by the provisions relating to such ISO charges provided in the Operating Order, including Exhibit D of the Operating Order.

2.6. DWR Surplus Energy Sales Revenues.

The treatment of surplus Power shall be governed by the Contract Allocation Order and the Operating Order, and as further provided in Service Attachment 2 hereto.

Section 3. Billing Services.

3.1. Provision of Services by Utility.

(a) Except to the extent that such Services are provided by a third-party, Utility shall provide metering services, meter reading services and Billing Services relating to (i) the Power Charge remittances with respect to each applicable Customer Type provided in the Appendices to Attachment B hereto, and (ii) the Bond Charge remittances with respect to each applicable Customer Type provided in the Appendices to Attachment B hereto. If Non-Utility Bills are involved in the Utility's performance of Billing Services, Utility shall calculate the amount of any applicable DWR Charges to be collected through Non-Utility Bills, all as further provided in this Servicing Order. Utility-provided metering services, meter reading services and Billing Services shall be provided in accordance with Applicable Law, Applicable Commission Orders, Applicable Tariffs and Service Attachment 1 hereto, as well as Attachment B and its Appendices.

(b) In the case where Non-Utility Bills are used by the Utility in the billing and collection of any component of DWR Charges under Applicable Law, Utility shall include such necessary and appropriate provisions in the Applicable Tariffs and any applicable servicing arrangements so that any component of DWR Charges billed and collected by such Non-Utility are remitted to Utility. Utility is directed to accept payment from such Non-Utility in respect of each applicable component of DWR Charges billed and collected through Non-Utility Bills in such forms and methods and at such times and places as the Utility and each Non-Utility shall mutually agree in accordance with Applicable Commission Orders and Applicable Tariffs. Upon remittance of any amounts by the Non-Utility to Utility for any applicable component of DWR Charges, Utility is directed to hold such charges in trust for the benefit of DWR (whether or not held together with other monies) and promptly remit and account for such amounts to DWR consistent with Applicable Law.

(c) Upon the Operating Order Effective Date, Utility shall sell surplus Power on behalf of DWR, and provide invoicing and collection of amounts owed by third parties for such surplus Power sales made by Utility on DWR's behalf and the allocation of such revenues to DWR. Surplus Power sales made by Utility on DWR's behalf, including the invoicing and collection of amounts owed by third parties and credit risk management, shall be conducted by Utility in accordance with Applicable Commission Orders, including but not limited to, the Contract Allocation Order, Applicable Tariffs, the Operating Order and Service Attachment 2 hereto.

(d) On behalf of DWR, Utility shall (i) follow its customary standards, policies and procedures in performing its duties hereunder and (ii) perform its duties hereunder using the same degree of care and diligence that Utility exercises for its own account.

(e) For surplus Power sales to third parties, Utility shall apply prudent credit risk management criteria to ensure that such purchasers meet or exceed DWR credit criteria, or in the absence of such DWR designated criteria, then consistent with industry accepted credit standards. If Utility sells surplus Power to an entity that requires collateral, the cost and obligation to post such collateral shall be Utility's responsibility.

(f) Utility shall be responsible for all transaction fees or other costs associated with the sale of surplus Power imposed by third-party purchasers or any agents of Utility or such purchaser, all as further provided in Exhibit C of the Operating Order.

3.2. Modification of Billing and Metering Systems.

Utility shall have the right to modify and replace its billing and metering systems, subject to the requirements of Applicable Law, if any. However, to the extent that such modifications and replacements materially interrupt Services provided by Utility to DWR, Utility shall provide to DWR, as soon as reasonably practicable, prior written notice of any such changes, including, but not limited to, such changes as are required by Applicable Law or Applicable Commission Order(s). Moreover, to the extent any such modifications would affect the collection of DWR Charges or DWR Surplus Energy Sales Revenues in a manner which is different from the collection of Utility Charges or other Utility revenues, such as revenue from the sale of Power, Utility shall obtain DWR's prior written consent to such modifications, which consent DWR agrees shall not be unreasonably withheld or delayed.

3.3. Customer Inquiries.

Utility shall address all Customer inquiries regarding DWR Charges. DWR agrees to provide all necessary information to Utility in order to permit Utility to respond to all Customer inquiries on a timely basis. In extraordinary circumstances, Utility will refer Customer inquiries to DWR in a manner to be agreed upon by the Parties. In the event that either (i) DWR's failure to provide all such necessary information to Utility, (ii) DWR's provision of inaccurate information or (iii) DWR's failure to handle Customer inquiries referred to it by Utility in extraordinary circumstances in the manner agreed upon by the Parties results in Utility's non-compliance with its obligations under this Section 3.3, such non-compliance will not constitute a material breach of this Servicing Order and will not give DWR the right to terminate this Servicing Order.

3.4. Inquiries from Third Party Power Purchasers.

So long as Utility, as agent to DWR, sells surplus Power to third-party purchasers, Utility shall address all third-party purchasers' inquiries regarding such surplus Power sales. If Utility and any third-party purchaser should have a dispute with respect to the sale of surplus Power, Utility shall resolve all such disputes. Utility shall apply the same practices to the resolution of such disputes as Utility uses to resolve disputes related to any other transaction with such third-party purchaser.

Section 4. DWR Revenues; Remittance of DWR Revenues.

4.1. DWR Revenues.

DWR Revenues required to be remitted to DWR under this Servicing Order shall be based upon DWR Charges in effect from time to time pursuant to Applicable Law and Attachment B to this 2006 Servicing Order and the Appendices to such Attachment B. Upon the Operating Order Effective Date, in addition to the remittance of DWR Charges, DWR Surplus Energy Sales Revenues also shall be remitted based upon the principles set forth in Exhibit C of the Operating Order and as further provided in Service Attachment 2 hereto.

4.2. Remittance of DWR Revenues.

(a) Utility shall determine the Daily Remittance amount for each Fund Type and for each applicable Customer Type, consistent with the provisions of the Appendices of Attachment B hereto. As of the Effective Date of this 2006 Servicing Order, DWR Charge components relating to the following Fund Types for the Customer Types have been identified by DWR and Utility; however, the collection and remittance of DWR Charges from the Customer Types identified below will not begin until Applicable Commission Orders that require the Utility to perform such services are final and effective:

(1) Bundled Customers - Bond Charge. Utility is directed to remit Bond Charge for Bundled Customers to DWR, all as further provided in Attachment B and as further provided in Appendix A-1 to Attachment B of this 2006 Servicing Order.

(2) Bundled Customers - Power Charge. Prior to the Operating Order Effective Date, Utility remitted Power Charge for Bundled Customers to DWR based on the amounts collected from Bundled Customers for actual DWR Power supplied, all as further described in Attachment B of the 2003 Servicing Order. On and after the Operating Order Effective Date, Utility is directed to remit Power Charge for Bundled Customers, consistent with the principles set forth in Exhibit C of the Operating Order and as further provided in Attachment B and in Appendix A-2 to Attachment B of this 2006 Servicing Order.

(3) Direct Access Customers - Bond Charge. Utility is directed to remit Bond Charge for Direct Access Customers to DWR, all as further provided in Attachment B and as further provided in Appendix B-1 to Attachment B of this 2006 Servicing Order.

(4) Direct Access Customers - Power Charge. Utility is directed to remit Power Charge for Direct Access Customers to DWR, all as further provided in Attachment B and as further provided in Appendix B-2 to Attachment B of this 2006 Servicing Order.

(5) Customer Generation Departing Load - Bond Charge. Utility is directed to remit Bond Charge for Customer Generation Departing Load to DWR, all as further provided in Attachment B and as further provided in Appendix C-1 to Attachment B of this 2006 Servicing Order.

(6) Customer Generation Departing Load - Power Charge. Upon commencement of billing and collection of Power Charge for Customer Generation Departing Load, the Parties intend to revise and update Appendix C-2 to Attachment B of this 2006 Servicing Order and reflect applicable remittance methods as an event contemplated under Section 10(a)(vi) of this 2006 Servicing Order.

(7) Municipal Departing Load - Bond Charge. Upon commencement of billing and collection of Bond Charge for Municipal Departing Load, to the extent that Utility is involved, the Parties intend to revise and update Appendix D-1 to Attachment B of this 2006 Servicing Order and reflect applicable remittance methods as an event contemplated under Section 10(a)(vi) of this 2006 Servicing Order.

(8)

Municipal Departing Load - Power Charge. Upon commencement of billing and collection of Power Charge for Municipal Departing Load, to the extent that Utility is involved, the Parties intend to revise and update Appendix D-2 to Attachment B of this 2006 Servicing Order and reflect applicable remittance methods as an event contemplated under Section 10(a)(vi) of this 2006 Servicing Order.

(9) Community Choice Aggregation - Bond Charge. Upon commencement of billing and collection of Bond Charge for Community Choice Aggregation, the Parties intend to revise and update Appendix E-1 to Attachment B of this 2006 Servicing Order and reflect applicable remittance methods, as an event contemplated under Section 10(a)(vi) of this 2006 Servicing Order.

(10) Community Choice Aggregation - Power Charge. Upon commencement of billing and collection of Power Charge for Community Choice Aggregation, the Parties intend to revise and update Appendix E-2 to Attachment B of this 2006 Servicing Order and reflect applicable remittance methods, as an event contemplated under Section 10(a)(vi) of this 2006 Servicing Order.

If the Utility determines that it has remitted amounts to DWR in error or DWR becomes aware of a material discrepancy in the remitted amounts, then DWR or the Utility, as the case may be, may provide notice of such event to the other Party (accompanied by an explanation of the facts surrounding such erroneous deposit), and the other Party will review such notice and information as soon as practicable and reach agreement as to such amount to be repaid. Such agreement shall not be unreasonably withheld or delayed by either Party.

(b) Each Remittance shall be accompanied by a Daily Remittance Report, substantially in the form set forth in Attachment C hereto. Utility will not be required at any time to advance or pay any of its own funds in the fulfillment of its responsibilities hereunder with respect to DWR Charges, except to the extent provided otherwise in the Attachments hereto.

(c) Utility, from time to time, will make adjustments regarding amounts remitted as described in Attachment B and Appendices thereto. In addition, on and after the Effective Date, Monthly Billing Reports and Monthly Late Payment Charge Reports shall be filed with DWR by Utility, all as further provided in Attachments B and C hereto.

(d) Except as expressly provided in this Servicing Order (including Attachments hereto) or as otherwise expressly agreed to in writing by DWR, Utility shall not deduct from amounts due to DWR hereunder any amounts owing by DWR to Utility which relate to arrangements within or outside the scope of this Servicing Order, or any other amounts, and Utility expressly waives any right to do so. The foregoing shall not limit Utility's rights to seek any other remedies permitted under other arrangements with DWR.

(e) On and after the Operating Order Effective Date, Utility shall calculate and remit DWR Surplus Energy Sales Revenues determined consistent with the Contract Allocation Order and Exhibit C of the Operating Order and as further provided in Service Attachment 2 hereto. Each monthly Remittance for surplus Power sold on behalf of DWR shall be accompanied by written reports in forms set forth in Attachment C hereto.

4.3. 20/20 Program and Future Similar Programs.

To the extent that the program established in the California Governor's Executive Order D-30-01, dated March 13, 2001, and Executive Order D-33-01, dated April 26, 2001, as the foregoing orders may be amended, supplemented, extended or otherwise modified (the "20/20 Program"), obligated DWR to make payments or extend credits to Customers or other third parties under such program, Remittances to DWR may have been reduced by such payments to the extent of DWR's responsibility as required by Applicable Law and Applicable Tariffs. DWR acknowledges, that Utility's reasonable initial implementation and recurring administrative costs associated with such program has been paid by DWR in the same manner and at the same times as Utility's Set-Up Fee and Recurring Fees, respectively, as described in Sections 7.2 and 7.3 below. Additionally, Utility has invoiced DWR for any other costs incurred by Utility under such program, and DWR has paid such invoices as Additional Charges, in the manner contemplated in Section 7 below. The method for calculating reduced Remittances to DWR under this Section 4.3, as well as Utility's implementation and administration costs, shall be as set forth in Attachment F hereto.

To the extent that, in the future, programs similar to the 20/20 Program are established which expressly obligate DWR under Applicable Law and Applicable Tariffs to make payments or extend credits to Customers or other third parties under such programs, DWR and Utility will implement processes similar to those used for the 20/20 Program as set forth in the immediately preceding paragraph or such other process, as may be mutually agreed upon by the Parties.

Section 5. Term and Termination; Events of Default.

5.1. Term.

The term of this Servicing Order (the "Term") shall commence on the Effective Date and shall terminate on the earlier of (a) 180 calendar days after the last date DWR Charges are imposed on Customers, and 180 calendar days after the last date Utility sells surplus Power on behalf of DWR pursuant to the Operating Order, or (b) the earlier termination of this Servicing Order pursuant to this Section 5.

5.2. Events of Default by Utility.

The following events shall constitute "Events of Default" by Utility under this Servicing Order:

- (a) any failure by Utility to remit to DWR or its Assign(s) any required Remittance in the manner and at the time specified in this Servicing Order (except to the extent otherwise allowed under Sections 4.3 and 7.2) that continues unremedied for three (3) Utility Business Days after the earlier of the day Utility receives written notice thereof from DWR or the day the responsible manager at Utility first has actual knowledge of such failure; or
- (b) any failure by Utility to duly observe or perform in any material respect any other term or condition of Utility set forth in this Servicing Order, which failure (i) materially and adversely affects the interests or rights of DWR or its Assign(s), and (ii) continues unremedied for a period of sixty (60) calendar days after written notice of such failure has been given to Utility by DWR or its Assign(s).

5.3. Consequences of Utility Events of Default.

Upon any Event of Default by Utility, DWR may, in addition to exercising any other remedies available under this Servicing Order or under Applicable Law, (i) apply to the Commission for appropriate relief, including but not limited to the termination of this Servicing Order in whole or in part (including Service Attachments); and (ii) apply to the Commission and, if necessary, any court of competent jurisdiction for sequestration and payment to DWR or its Assign(s) of DWR Revenues. Remittances not made to DWR by Utility on the date due (except to the extent Remittances were not made by operation of Sections 4.3, 7.2, 14.4 or Attachment B hereto) shall bear interest at the Prime Rate from the first day after the due date until the third Utility Business Day after the due date, and at the Late Payment Rate thereafter until paid.

5.4. Defaults by DWR.

DWR agrees that it shall be in default under this Servicing Order upon:

- (a) subject to subsections (b), (c), (d) and (e) below, DWR's failure to cure its material breach of any provision of this Servicing Order within sixty (60) calendar days after receiving written notice thereof from Utility;
- (b) Except for amounts to which DWR has objected in writing pursuant to Section 7.2, DWR's failure to pay to Utility the Set-Up Fee or Recurring Fees within three (3) DWR Business Days after the date they are due hereunder, as provided in Section 7;
- (c) Except for amounts to which DWR has objected in writing pursuant to Section 7.2, DWR's failure to pay to Utility the initial implementation and recurring administrative costs associated with Utility's implementation of the 20/20 Program, as provided in Section 4.3;
- (d) Except for amounts to which DWR has objected in writing pursuant to Section 7.2, DWR's failure to fulfill any other monetary obligation hereunder within fifteen (15) calendar days after receiving written notice from Utility that such obligation is past due; or
- (e) DWR's failure to comply with the terms and obligations under Section 2.2 within fifteen (15) calendar days after receiving written notice thereof from Utility.

Upon any default by DWR under this Section 5.4, Utility may exercise any remedies available under this Servicing Order or under Applicable Law, provided that Utility shall have no right to terminate this Servicing Order either in whole or in part (including Service Attachment 1) or any obligation hereunder. DWR agrees that, except for amounts to which DWR has objected in writing pursuant to Section 7.2 and which are determined not to be owed, any Set-Up Fee or Recurring Fees, or any initial implementation and recurring administrative costs associated with Utility's implementation of the 20/20 Program, as provided in Section 4.3, which are not paid to Utility on the date due shall bear interest at the Prime Rate from the first day after the due date until the third DWR Business Day after the date they are required to be made hereunder, and at the Late Payment Rate thereafter until paid. DWR further agrees that, except for amounts to which DWR has objected in writing pursuant to Section 7.2 and which are determined not to be owed, any other monetary obligation payable to Utility by DWR shall bear interest at the Prime Rate from the date due until 15 days after receiving written notice from Utility that such amount is overdue, and thereafter at the Late Payment Rate. DWR further agrees that when and to the extent that any amounts to which DWR has objected in writing pursuant to Section 7.2 are determined to be owing, such amounts shall bear interest from the due date at the rates described above for the applicable category of obligation.

5.5. Survival of Payment Obligations.

Upon termination of this Servicing Order, DWR agrees that it, and it is ordered that Utility, shall remain liable to the other Party for all amounts owing under this Servicing Order. Utility shall continue to collect or cause to be collected and, in each case, remit, pursuant to the terms of this Servicing Order, including but not limited to Attachment B and Service Attachments hereto, any DWR Charges billed to Customers before the effective date of termination, and DWR Surplus Energy Sales Revenues attributable to surplus Power sales made prior to the effective date of termination, except as provided in Attachment B hereto.

Section 6. Confidentiality.

6.1. Proprietary Information.

(a) Nothing in this Servicing Order shall affect Utility's obligations to observe any Applicable Law prohibiting the disclosure of Confidential Information regarding its Customers.

(b) Nothing in this Servicing Order, and in particular nothing in Sections 6.1(e)(x) through 6.1(e)(z) of this Servicing Order, shall affect the rights of the Commission to obtain from Utility, pursuant to Applicable Law, information requested by the Commission, including Confidential Information provided by DWR to Utility. Applicable Law, and not this Servicing Order, will govern what information the Commission may disclose to third parties, subject to any confidentiality agreement between DWR and the Commission.

(c) Each Party may acquire information and material that is the other Party's confidential, proprietary or trade secret information. As used herein, "Confidential Information" means any and all technical, commercial, financial and customer information disclosed by one Party to the other (or obtained from one Party's inspection of the other Party's records or documents), including any patents, patent applications, copyrights, trade secrets and proprietary information, techniques, sketches, drawings, maps, reports, specifications, designs, records, data, models, inventions, know-how, processes, apparatus, equipment, algorithms, software programs, software source documents, object code, source code, and information related to the current, future and proposed products and services of each of the Parties, and includes, without limitation, the Parties' respective information concerning research, experimental work, development, design details and specifications, engineering, financial information, procurement requirements, purchasing, manufacturing, business forecasts, sales and merchandising, and marketing plans and information. In all cases, Confidential Information includes proprietary or confidential information of any third party disclosing such information to either Party in the course of such third party's business or relationship with such Party. Utility's Confidential Information also includes any and all lists of Customers, and any and all information about Customers, both individually and aggregated, including but not limited to Customers' names, street addresses of Customer residences and/or facilities, email addresses, identification numbers, Utility account numbers and passwords, payment histories, energy usage, rate schedule history, allocation of energy uses among Customer residences and/or facilities, and usage of DWR Power. DWR agrees, and it is ordered with respect to Utility, that all Confidential Information disclosed by the disclosing Party ("Discloser") will be considered Confidential Information by the receiving Party ("Recipient") if identified as confidential and received from Discloser.

(d) DWR agrees, and Utility is ordered to take all steps reasonably necessary to hold in trust and confidence the other Party's Confidential Information. Without limiting the generality of the immediately preceding sentence, DWR agrees, and Utility is ordered (i) to hold the other Party's Confidential Information in strict confidence, not to disclose it to third parties or to use it in any way, commercially or otherwise, other than as permitted under this Servicing Order; and (ii) to limit the disclosure of the Confidential Information to those of its employees, agents or directly related subcontractors with a need to know who have been advised of the confidential nature thereof and who have acknowledged their express obligation to maintain such confidentiality.

(e) DWR agrees, and it is ordered with respect to Utility that the foregoing two paragraphs will not apply to any item of Confidential Information if: (i) it has been published or is otherwise readily available to the public other than by a breach of this Servicing Order; (ii) it has been rightfully received by Recipient from a third party without breach of confidentiality obligations of such third party and outside the context of the provision of Services under this Servicing Order; (iii) it has been independently developed by Recipient personnel having no access to the Confidential Information; or (iv) it was known to Recipient prior to its first receipt from Discloser. DWR agrees, and it is ordered with respect to Utility that, in addition, Recipient may disclose Confidential Information if and to the extent required by law or a Governmental Authority, provided that (x) Recipient shall give Discloser a reasonable opportunity to review and object to the disclosure of such Confidential Information, (y) Discloser may seek a protective order or confidential treatment of such Confidential Information, and (z) Recipient shall make commercially reasonable efforts to cooperate with Discloser in seeking such protective order or confidential treatment. DWR agrees, and it is ordered with respect to Utility that Discloser shall pay Recipient its reasonable costs of cooperating.

6.2. No License.

DWR agrees, and it is ordered with respect to Utility that nothing contained in this Servicing Order shall be construed as granting to a Party a license, either express or implied, under any patent, copyright, trademark, service mark, trade dress or other intellectual property right, or to any Confidential Information now or hereafter owned, obtained, controlled by, or which is or may be licensable by, the other Party.

6.3. Survival of Provisions.

DWR agrees, and it is ordered with respect to Utility that the provisions of this Section 6 shall survive the termination of this Servicing Order.

Section 7. Payment of Fees and Charges.

7.1. Utility Fees.

DWR agrees that it will pay to Utility a fee, calculated in accordance with Attachment G hereto (the "Set-Up Fee"), in order to cover Utility's costs of establishing the procedures, systems, and mechanisms necessary to perform Services. In addition, DWR also agrees to pay to Utility an annual fee, calculated in accordance with Attachment G hereto, payable monthly in arrears (unless a different payment schedule is mutually agreed upon by the Parties) as provided in Section 7.2 hereof (the "Recurring Fees") for Services rendered pursuant to Section 3.1, Section 3.4 and Service Attachments to this Servicing

Order. Additional fees to cover changes in costs or the costs of other services provided hereunder shall be as set forth in Attachment G, which from time to time may be modified by mutual agreement of the Parties or as provided in Applicable Commission Order. In the event that additional fees or costs are identified by Utility which have not been identified and included in Attachment G hereto, the Parties hereby agree to negotiate in good faith to determine the amount of such fees or costs. Except to the extent provided otherwise in subsequent agreements between the Parties, if the Parties are unable to resolve any disputes relating to such additional fees, either Party may, upon giving seven calendar days advance written notice to the other, submit the dispute to the Commission for proposed resolution, in accordance with Applicable Law. However, in the event such a dispute is submitted to the Commission by either Party, and prior to the Commission's action, DWR agrees to continue to pay to Utility fees that will permit recovery of the Utility's incremental cost of establishing procedures, systems and mechanisms necessary to perform Services as set forth in Attachment G. The Utility shall file these fees with the Commission. Utility acknowledges that the Commission may adjust, with notice to Utility and an opportunity for Utility to be heard, Utility's rates to avoid double recovery of any costs paid by DWR hereunder which have already been included in Utility's rates.

7.2. Payment of Utility Fees and Charges.

The Set-Up Fee was due and payable on the effective date of the Servicing Agreement approved by the Commission pursuant to Decision 01-09-013, and DWR has paid Utility the Set-Up Fee, in the manner provided in Section 7.3 below. After receipt of Utility's invoice thirty (30) days in advance, DWR agrees to pay to Utility its Recurring Fees in monthly installments by the 10th day of each month in the manner provided in Section 7.3 below. Additionally, with respect to all other fees and charges which are expressly identified as owing by DWR to Utility under this Servicing Order or such other amounts as mutually agreed to by the Parties (the "Additional Charges"), unless a different payment schedule is mutually agreed upon by the Parties, Utility shall (in paper format or, at DWR's option, electronically) submit to DWR an invoice reflecting such Additional Charges for such calendar month. Any invoiced amount for Recurring Fees or Additional Charges shall be due and payable within three (3) DWR Business Days after presentation, and any invoiced amount and the Set-Up Fee shall be considered past due thirty (30) calendar days after presentation, after which interest shall accrue as provided in Section 7.4. To the extent that any invoiced amounts described in this Section 7.2 are not fully paid within forty-five (45) days after presentation, and DWR has not objected to Utility in writing by such date, DWR agrees that Utility shall have the right to deduct from any future Remittance(s) the unpaid and overdue amount which is not the subject of any such objection by such date, until such invoice is paid in full or until the dispute over the amount due has been resolved. In addition, upon written agreement of DWR, any amount payable under this 2006 Servicing Order may be deducted from any future Remittance(s) or be paid in such other periodic basis, all as expressly directed by DWR.

7.3. Method of Payment.

(a) Except as otherwise expressly provided herein or unless a different payment schedule is mutually agreed upon by the Parties, DWR agrees, and with respect to Utility it is ordered, that any payment from either Party to the other Party under this Servicing Order shall be made by ACH or, if ACH is unavailable, then by wire transfer of immediately available funds to the bank account designated by the receiving Party or, if mutually agreed, paid by means of a check or warrant sent to the recipient's address indicated in accordance with Section 14.14 hereof. Where the Parties have made arrangements for a bank or other third party to remit funds from one Party to the other Party, DWR agrees, and with respect to Utility it is ordered that proper identification of the bank or third party, including the account number, shall be furnished in writing. DWR agrees, and with respect to Utility it is ordered that the remitting Party shall reasonably cooperate in correcting any bank or other third-party errors and shall not be relieved of its payment responsibilities because of such errors.

(b) Except as expressly provided otherwise herein or under any Applicable Law, Utility shall be required to pay all expenses incurred by it in connection with its activities under this Servicing Order (including any fees to and disbursements by accountants, counsel, or any other person, any taxes, fees, surcharges or levies imposed on Utility, and any expenses incurred in connection with reports to be provided hereunder) out of the compensation paid to it pursuant to this Section 7, and Utility shall not be entitled to any extra payment or reimbursement therefor. Notwithstanding anything to the contrary above, if and to the extent any additional taxes (excluding taxes on Utility's income), fees or charges are imposed on Utility due solely to Utility's performance of Services hereunder with respect to DWR Charges (such as franchise fees or taxes on DWR Power, the State of California electric energy surcharge, local utility user taxes, or Commission fees), to the extent these taxes, fees, or charges are not already included in Utility's rates and Utility has not been reimbursed therefor and is not authorized to seek reimbursement from Customers therefor, DWR agrees to reimburse Utility therefor as "Additional Charges" in accordance with Section 7.2.

7.4. Interest.

DWR agrees, and with respect to Utility it is ordered that except as provided in Sections 5.3, 5.4 or 7.5, any Delinquent Payment under this Servicing Order (whether or not a regularly scheduled payment) shall bear interest at the Late Payment Rate.

7.5. Reconciliation Amounts.

If a change in Applicable Law (but only if and to the extent such change is expressly intended to be retroactive in effect) or the discovery of a "Material Flaw" results in a discrepancy between any amount paid hereunder and the amount that would have been paid if the changed Applicable Law had been in effect or the Material Flaw had been corrected, such discrepancy (a "Reconciliation Amount") shall be paid by the party that benefited from the superseded Applicable Law

or Material Flaw to the other party. Reconciliation Amounts shall be paid in full within 30 days after receipt of an invoice therefore unless a different payment schedule is mutually agreed upon between the parties. Interest on any Reconciliation Amount shall accrue from the original date on which the incorrect payment or remittance produced by the Material Flaw was due until such Reconciliation Amount is paid. Interest on any Reconciliation Amount shall be calculated on the basis of a 365- or 366- day year, as applicable, for the actual days elapsed. For a Reconciliation Amount due from Utility to DWR, interest shall accrue at the rate of interest on Commercial Paper (Financial, three-month maturity) published in the Federal Reserve Statistical Release H.15 as described in Utility's Preliminary Statement, II. Balancing Accounts, Section L, Energy Resource Recovery Account (ERRA), Subsection 5(q), or such other superseding account then in effect. Should the publication of the interest rate on Commercial Paper (Financial, three-month maturity) be discontinued, interest shall accrue at the rate of the most recent monthly interest rate on commercial paper that most closely approximates the rate that was discontinued, and which is published in the Federal Reserve Statistical Release H.15, or its successor publication or such other rate as may be mutually agreed by the Parties. For a Reconciliation Amount due from DWR to Utility, interest shall accrue at the State's Pooled Money Investment Account Rate in effect from time to time. If an outstanding Reconciliation Amount is not paid in full as of the date agreed upon by the Parties, any overdue amounts on and after such agreed upon date shall be considered Delinquent Payments and interest shall accrue at the Late Payment Rate from the date such overdue amount was due until paid, in accordance with Section 7.4.

For purposes of this Section, a "Material Flaw" is a procedure or method set forth in this Servicing Order, or an aspect thereof, which results in the payment or remittance of amounts to either Party (or the failure so to remit or pay) in a time, manner or amount that is inconsistent with Applicable Law. It is expressly agreed and understood that the undercollection or overcollection of amounts required to be collected under Section 80134 of the California Water Code due to incorrect projections of DWR's revenue requirements or due to incorrect projections in the setting of DWR Charges shall not constitute a Material Flaw and are intended to be tried-up in subsequent revenue requirements.

Section 8. Records; Audit Rights; Annual Certification.

8.1. Records.

Utility shall maintain accurate records and accounts relating to DWR Revenues (including separate accounting of Bond Charges and Power Charges) in sufficient detail to permit recordation of Bond Charges and Power Charges billed to or caused to be billed to each Customer Type identified in the Appendices to Attachment B hereto and DWR Revenues from Bond Charges and Power Charges, respectively, remitted by Utility to DWR reflecting separate accounting with respect to each Customer Type. Utility shall maintain accurate records and accounts relating to DWR Surplus Energy Sales Revenues (including separate accounting of surplus Power sales transactions by counterparty) in sufficient detail to permit recordation of DWR Surplus Energy Sales Revenues separate from other DWR Revenues, remitted by Utility to DWR. Utility shall provide to DWR and its Assign(s) access to such records. Access shall be afforded without charge, upon reasonable request made pursuant to Section 8.2. DWR agrees that access shall be afforded only during Business Hours and in such a manner so as not to interfere unreasonably with Utility's normal operations. Utility shall not treat DWR Revenues as income or assets of the Utility or any affiliate for any tax, financial reporting or regulatory purposes, and the financial books or records of Utility and affiliates shall be maintained in a manner consistent with the absolute ownership of DWR Revenues by DWR and Utility's holding of DWR Revenues in trust for DWR (whether or not held together with other monies).

8.2. Audit Rights.

(a) Upon thirty (30) calendar days' prior written notice, DWR may request an audit, conducted by DWR or its agents (at DWR's expense), of Utility's records and procedures, which shall be limited to records and procedures containing information bearing upon: (i) DWR Charges being billed or caused to be billed to each Customer Type identified in the Appendices to Attachment B hereto by Utility (and payments of DWR Charges separately accounted for each Customer Type); (ii) fees to Utility for Services provided by Utility pursuant to this Servicing Order; (iii) Utility's performance of its obligations under this Servicing Order; (iv) amount of Aggregate Power that is the basis for DWR Charges with respect to each Customer Type pursuant hereto or Applicable Law; (v) projection or calculation of DWR's revenue requirements as described in Sections 80110 and 80134 of the California Water Code from time to time; (vi) DWR Surplus Energy Sales Revenues collected from third-party purchasers and the collection and allocation of such revenues; and (vii) such other matters as may be permitted by Applicable Commission Orders, Applicable Tariffs or as DWR or its Assign(s) may reasonably request. The audit shall be conducted during Business Hours without interference with Utility's normal operations, and in compliance with Utility's security procedures.

(b) As provided in the Act, the State of California Bureau of State Audits (the "Bureau") conducted a financial and performance audit of DWR's implementation of Division 27 (commencing with Section 80000) of the California Water Code, such audit was to be completed prior to December 31, 2001, and the Bureau issued a final report on or before March 31, 2003. In addition, as provided in Section 8546.7 of the California Government Code, pursuant to this Section 8.2, Utility is ordered to permit DWR or the State of California Department of General Services, the Bureau, or their designated representative ("DWR's Agent") to review and to copy (at DWR's expense) any non-confidential records and supporting documentation pertaining to the performance of this Servicing Order and to conduct an on site review of any Confidential Information pursuant to Sections 8.3 and 8.8 hereof. Utility shall maintain such records for such possible audit for three (3) years after final Remittance to DWR. Utility shall allow such auditor(s) access to such records during Business Hours and shall allow interviews of any employees who might reasonably have information related to such records. Further, Utility

shall include a similar right for DWR or DWR's Agent to audit records and interview staff in any contract between Utility and a subcontractor related to performance of this Servicing Order.

8.3. Confidentiality.

Materials reviewed by either Party or its agents in the course of an audit may contain Confidential Information subject to Section 6 above. DWR agrees, and with respect to Utility it is ordered that the use of all materials provided to DWR or Utility or their agents, as the case may be pursuant to this Section 8, shall comply with the provisions in Section 6 and shall be limited to use in conjunction with the conduct of the audit and preparation of a report for appropriate distribution of the results of the audit consistent with Applicable Law.

8.4. DWR Requested Independent Reports.

On or after the Effective Date of this 2006 Servicing Order and at the request and expense of DWR, Utility shall cause a firm of independent certified public accountants (which may provide other services to Utility) to prepare, and Utility will deliver to DWR and its Assign(s), a report addressed to Utility (which may be included as part of Utility's customary auditing activities), for the information and use of DWR, to the effect that such firm has performed certain procedures (the scope of which shall be agreed upon with DWR) in connection with Utility's compliance with its obligations under this Servicing Order during the preceding year, identifying the results of such procedures and including any exceptions noted. Utility will deliver a copy of each report prepared hereunder to the Commission (at the address specified in section 14.14) at the same time it delivers each such report to DWR. Utility shall not be obligated to complete more than one report per year under this Section.

8.5. Annual Certifications.

On or after the Effective Date of this 2006 Servicing Order and at least annually, Utility will deliver to DWR, with a copy to the Commission, a certificate of an authorized officer certifying that to the best of such officer's knowledge, after a review of Utility's performance under this Servicing Order, Utility has fulfilled its obligations under this Servicing Order in all material respects and is in compliance herewith in all material respects.

8.6. Additional Applicable Laws.

DWR agrees, and Utility is ordered to make an effort to promptly notify the other Party in writing to the extent such Party becomes aware of any new Applicable Laws or changes (or proposed changes) in Applicable Tariffs hereafter enacted, adopted or promulgated that may have a material adverse effect on either Party's ability to perform its duties under this Servicing Order. DWR agrees, and with respect to Utility it is ordered that a Party's failure to so notify the other Party pursuant to this Section 8.6 will not constitute a material breach of this Servicing Order, and will not give rise to any right to terminate this Servicing Order or cause either Party to incur any liability to the other Party or any third party.

8.7. Other Information.

Upon the reasonable request of DWR or its Assign(s), Utility shall provide to the Commission and to DWR or its Assign(s) any public financial information in respect of the Utility applicable to Services provided by Utility under this Servicing Order, or any material information regarding the sale of DWR Power, surplus Power or the collection of DWR Charges to the extent such information is reasonably available to Utility, which (i) is reasonably necessary and permitted by Applicable Law to monitor the performance by Utility hereunder, or (ii) otherwise relates to the exercise of DWR's rights or the discharge of DWR's duties under this Servicing Order or any Applicable Law. In particular, but without limiting the foregoing, Utility shall provide to DWR, with a copy to the Commission, any such information that is necessary or useful to calculate DWR's revenue requirements (as described in Sections 80110 and 80134 of the California Water Code) or DWR Charges and DWR Surplus Energy Sales Revenues.

8.8. Customer Confidentiality.

Nothing in this Section 8 shall affect the obligation of Utility to observe any Applicable Law prohibiting disclosure of information regarding Customers, and the failure of Utility to provide access to such information as a result of such obligation shall not constitute a breach of this Section 8 or this Servicing Order.

Section 9. Reserved.

Section 10. Amendment Upon Changed Circumstances.

(a) The Parties are informed that compliance with any Commission decision, legislative action or other governmental action (whether issued before or after the Effective Date of this Servicing Order) affecting the operation of this Servicing Order, including but not limited to (i) dissolution of the ISO, (ii) changes in the ISO market structure, including but not limited to the currently pending Market Redesign and Technology Upgrade, (iii) a decision regarding the "Fixed Department of Water Resources Set-Aside" as such term is defined in Section 360.5 of the California Public Utilities Code, (iv) the establishment of other Governmental Programs, (v) the establishment or implementation of Bond Charge or related charges ordered by the Commission to additional Customer Types than currently reflected in the Appendices to Attachment B and as further contemplated in Section 2.4 of Service Attachment 1 hereto, (vi) the imposition or modification of a charge or similar DWR Charge upon customers of Electric Service Providers or upon any other third party, (vii) the modification of the

Operating Order, or (viii) the modification of provisions related to the sales of surplus Power made on behalf of DWR to third parties by Utility, may require that amendment(s) be made to this Servicing Order. If either Party reasonably determines that such a decision or action would materially affect the Services to be provided hereunder or the reasonable costs thereof, then upon the issuance of such decision or the approval of such action (unless and until it is stayed), DWR agrees, and Utility is ordered to negotiate the amendment(s) to this Servicing Order that is (or are) appropriate in order to effectuate the required changes in Services to be provided or the reimbursement thereof. Notwithstanding Section 5.4, if the Parties are unable to reach agreement on such amendments within sixty (60) days after the issuance of such decision or approval of such action, DWR may, and Utility shall, submit the disagreement to the Commission for proposed resolution, in accordance with Applicable Law. Nothing herein shall preclude either Party from challenging the decision or action which such Party deems may adversely affect its interests in any appropriate forum of the Party's choosing.

(b) The Parties are informed that this Servicing Order has not been reviewed by the rating agencies which are rating DWR's bonds. If the rating agencies request changes to this Servicing Order DWR agrees, and Utility is ordered to negotiate to amend this Servicing Order to accommodate the rating agency requests and will cooperate in obtaining approval of the Commission for such amendments.

(c) The Parties are informed that this Servicing Order has been modified to implement the California Governor's Executive Order D-39-01, dated June 9, 2001, concerning load curtailment programs. Such previously negotiated amendments to this Servicing Order are incorporated in Attachment F hereto.

(d) DWR agrees, and Utility is ordered to bring to the other Party's attention any errors or discrepancies that are discovered affecting the operation or implementation of this Servicing Order, and DWR agrees, and Utility is ordered to meet and confer upon such event to negotiate any amendments to this Servicing Order that are appropriate to correct such errors or discrepancies. If the Parties are unable to reach agreement on such amendments within sixty (60) days after the discovery of such errors or discrepancies, either party may, in the exercise of its sole discretion, submit the disagreement to the Commission for proposed resolution, in accordance with Applicable Law. Nothing herein shall preclude either Party from challenging the decision or action which such Party deems may adversely affect its interests in any appropriate forum of the Party's choosing.

Section 11. Data Retention.

DWR agrees, and with respect to Utility is ordered that all data associated with the provision and receipt of services pursuant to this Servicing Order shall be maintained for the greater of (a) the retention time required by Applicable Law or Applicable Tariffs for maintaining such information, or (b) three years.

Section 12. Indemnity.

It is ordered that Utility and, to the extent allowed under Applicable Law, DWR agrees that it (each, the "Indemnifying Party") shall defend, indemnify, and hold the other Party, together with its affiliates, and each of their respective officers, agents, employees, assigns and successors in interest (collectively, the "Indemnified Party"), harmless from and against all claims, losses, demands, actions and expenses, damages and liabilities of any nature whatsoever (collectively "Claims") with respect to the acts or omissions of the Indemnifying Party or its officers, agents, contractors and employees or with respect to Indemnifying Party's performance of its obligations under this Servicing Order. DWR agrees, and with respect to Utility it is ordered that notwithstanding the above, the provisions of this Section 12 shall not apply to any Claims to the extent they involve the negligence, gross negligence, recklessness, willful misconduct or breach of this Servicing Order by either Indemnified Party. DWR agrees, and with respect to Utility it is ordered that each Indemnified Party shall bear its own attorneys' fees and costs under this Section 12. DWR agrees, and with respect to Utility it is ordered that the Indemnifying Party's obligations under this Section 12 shall survive termination of this Servicing Order. This Section 12 notwithstanding, DWR has made no representation that it has the express or implied legal authority to perform any obligation under this Section 12.

Section 13. Limitations on Liability.

13.1. Consequential Damages.

DWR agrees, and with respect to Utility it is ordered that in no event will either Party be liable to the other Party for any indirect, special, exemplary, incidental, punitive, or consequential damages under any theory. Nothing in this Section 13.1 shall limit either Party's rights as provided in Section 12 above.

13.2. Limited Obligations of DWR and Utility.

DWR agrees that it will be liable for all amounts owing to Utility for the Services hereunder, irrespective of (a) any Customer's failure to make full and timely payments owed for DWR Charges, or (b) Utility's rights under Sections 4.3 and 7.2 to deduct certain amounts in calculating Remittances owing by Utility to DWR under Attachment B. Utility will not be required at any time to advance or pay any of its own funds in the fulfillment of its responsibilities hereunder with respect to DWR Charges, except to the extent provided otherwise in Attachment B hereto. DWR agrees that any amounts payable by DWR under this Servicing Order shall be payable solely from moneys on deposit in the Department of Water Resources Electric Power Fund established pursuant to Section 80200 of the California Water Code (the "Fund"). Neither the full faith and credit nor the taxing power of the State of California are or may be pledged for any payment under this Servicing Order. Revenues and assets of the State Water Resources Development System are not available to make payments under this

Servicing Order. If moneys on deposit in the Fund are insufficient to pay all amounts payable by DWR under this Servicing Order, or if DWR has reason to believe such funds may become insufficient to pay all amounts payable by DWR under this Servicing Order, DWR agrees to diligently pursue an increase to its revenue requirements as permitted under the Act from the appropriate Governmental Authority as soon as practicable.

Section 14. Miscellaneous.

14.1. Independent Contractor.

Utility and its agents and employees shall perform their obligations under this Servicing Order as independent contractors and not as officers or employees of the State of California. Notwithstanding the above, Utility shall act as the agent of DWR in billing and collecting DWR Charges or DWR Surplus Energy Sales Revenues hereunder, as provided in the Act and Section 80106 of the California Water Code.

14.2. Remedies Cumulative.

DWR agrees, and with respect to Utility, it is ordered that except as otherwise provided in this Servicing Order, all rights of termination, cancellation, or other remedies in this Servicing Order are cumulative. DWR agrees, and with respect to Utility, it is ordered that the use of any remedy shall not preclude any other remedy available under this Servicing Order.

14.3. Assignment.

(a) DWR agrees, and with respect to Utility, it is ordered that except as provided in paragraphs (b), (c) and (d) below, neither Party shall assign or otherwise dispose of this Servicing Order, its right, title or interest herein or any part hereof to any entity, without the prior written consent of the other Party. DWR agrees, and with respect to Utility, it is ordered that no assignment of this Servicing Order shall relieve the assigning Party of any of its obligations under this Servicing Order until such obligations have been assumed by the assignee. DWR agrees, and with respect to Utility, it is ordered that when duly assigned in accordance with this Section 14.3(a) and when accepted by the assignee, this Servicing Order shall be binding upon and shall inure to the benefit of the assignee. DWR agrees, and with respect to Utility, it is ordered that any assignment in violation of this Section 14.3(a) shall be void.

(b) Notwithstanding the provisions of this Section 14.3, Utility may delegate its duties under this Servicing Order to an agent or subcontractor, provided that Utility shall remain fully responsible for performance of any delegated duties and shall provide DWR with 30 calendar days' prior written notice of any such delegation, and further provided that such delegation does not, in the sole discretion of DWR, materially adversely affect DWR's or its Assigns' interests hereunder.

(c) DWR agrees, and with respect to Utility, it is ordered that DWR may assign or pledge its rights to receive performance (including payment of Remittances) hereunder to a trustee or another party ("Assign(s)") in order to secure DWR's obligations under its bonds (as that term is defined in the Act), and any such Assign shall be a third party beneficiary of this Servicing Order; provided, however, that this authority to assign or pledge rights to receive performance hereunder shall in no event extend to any person or entity that sells power or other goods or services to DWR. Notwithstanding the immediately preceding sentence, DWR may assign or pledge its rights to receive Remittances hereunder to another party in order to secure DWR's other obligations under the Act.

(d) Any person (i) into which Utility may be merged or consolidated, (ii) which may result from any merger or consolidation to which Utility shall be a party or (iii) which may succeed to the properties and assets of Utility substantially as a whole, which person in any of the foregoing cases executes an agreement of assumption to perform every obligation of the Utility hereunder, shall be the successor to Utility under this Servicing Order without further act on the part of any of the Parties to this Servicing Order; provided, however, that Utility shall have delivered to DWR and its Assign(s) an opinion of counsel reasonably acceptable to DWR stating that such consolidation, merger or succession and such agreement of assumption complies with this Section 14.3(d) and that all of Utility's obligations hereunder have been validly assumed and are binding on any such successor or assign.

(e) Notwithstanding anything to the contrary herein, DWR's rights and obligations hereunder shall be transferred, without any action or consent of either Party hereto, to any entity created by the State legislature which is required under Applicable Law to assume the rights and obligations of DWR under Division 27 of the California Water Code.

14.4. Force Majeure.

Neither Party shall be liable for any delay or failure in performance of any part of this Servicing Order (including the obligation to remit money at the times specified herein) from any cause beyond its reasonable control, including but not limited to, unusually severe weather, flood, fire, lightning, epidemic, quarantine restriction, war, sabotage, act of a public enemy, earthquake, insurrection, riot, civil disturbance, strike, restraint by court order or Government Authority, or any combination of these causes, which by the exercise of due diligence and foresight such Party could not reasonably have been expected to avoid and which by the exercise of due diligence is unable to overcome. An Insolvency Event shall not constitute force majeure. Notwithstanding anything to the contrary above, DWR agrees, and with respect to Utility it is ordered that, each Party's obligation to pay money hereunder shall continue to the extent such Party is able to make such payment, and any amounts owed by Utility hereunder and received by Utility shall be held in trust for DWR (whether or not held together with other monies) and remitted to DWR as soon as reasonably practicable. DWR agrees, and with respect to

Utility it is ordered that, any amounts paid or remitted pursuant to this Section 14.4 shall not bear interest which would otherwise accrue under Section 7.

14.5. Severability.

DWR agrees, and with respect to Utility, it is ordered that in the event that any one or more of the provisions of this Servicing Order shall for any reason be held to be unenforceable in any respect under Applicable Law, such unenforceability shall not affect any other provision of this Servicing Order, but this Servicing Order shall be construed as if such unenforceable provision or provisions had never been contained herein.

14.6. Third-Party Beneficiaries.

The provisions of this Servicing Order are exclusively for the benefit of the Parties and any permitted assignee of either Party.

14.7. Governing Law.

This Servicing Order shall be interpreted, governed and construed under the laws of the State of California as if executed and performed wholly within the State of California.

14.8. Reserved.

14.9. Section Headings.

Section and paragraph headings appearing in this Servicing Order are inserted for convenience only and shall not be construed as interpretations of text.

14.10. Applicable Law.

This Servicing Order and the Parties' obligations hereunder shall be subject in all cases to the provisions of Applicable Law, except that this Servicing Order shall have no effect on the terms of any agreement between DWR and Utility, as modified from time to time after the Effective Date hereof. Furthermore, no default under any such other agreement between the Parties shall constitute a default hereunder, and each party hereby waives any right to set off any amounts owing to it under any such other agreement against any amounts owing hereunder.

Should a conflict exist between the provisions contained in this Servicing Order (including the attachments hereto) and either Applicable Law or the 20/20 Program, the provisions of Applicable Law or the 20/20 Program, as the case may be, shall govern. In the event of a conflict between the provisions of this Servicing Order and any Attachments hereto (including each of the Service Attachments), then the provisions of the Attachments shall govern. Nothing in this paragraph shall relieve the Parties from complying with their obligations under Section 10 to make amendments to this Servicing Order to reflect changed circumstances, including any amendments necessary due to amendments or supplements to the Operating Order or due to necessary reconciliation with the Operating Order.

14.11. Reserved.

14.12. Waivers.

DWR agrees, and with respect to Utility, it is ordered that none of the provisions of this Servicing Order shall be considered waived by either Party unless the Party against whom such waiver is claimed gives such waiver in writing. DWR agrees, and with respect to Utility, it is ordered that the failure of either Party to insist in any one or more instances upon strict performance of any of the provisions of this Servicing Order or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect. DWR agrees, and with respect to Utility, it is ordered that waiver by either Party of any default by the other Party shall not be deemed a waiver of any other default.

14.13. Reserved.

14.14. Notices and Demands.

(a) DWR agrees, and with respect to Utility, it is ordered that except as otherwise provided under this Servicing Order, all notices, demands, or requests pertaining to this Servicing Order shall be in writing and shall be deemed to have been given (i) on the date delivered in person, (ii) on the date when sent by facsimile (with receipt confirmed by telephone by the intended recipient or his or her authorized representative) or electronic transmission (with receipt confirmed telephonically or electronically by the intended recipient or his or her authorized representative) or by special messenger, or (iii) seventy-two (72) hours following delivery to a United States post office when sent by certified or registered United States mail postage prepaid, and addressed as set forth below:

Utility: San Diego Gas & Electric Company
Customer Service - Major Markets
8315 Century Park Court
San Diego, California 92123

Attn: Dawn Osborne
Customer Choice Manager
Telephone: (858) 654-1275
Facsimile: (858) 654-1256
Email: dosborne@semprautilities.com

DWR: State of California
The Resources Agency
Department of Water Resources
California Energy Resources Scheduling Division
3310 El Camino Avenue, Suite 120
Sacramento, California 95821

Attn: Jim Olson
Chief Financial Management Office
Telephone: (916) 574-1297
Facsimile: (916) 574-0301
Email: jolson@water.ca.gov

(b) DWR agrees, and with respect to Utility, it is ordered that each Party shall be entitled to specify as its proper address any other address in the United States, or specify any change to the above information, upon written notice to the other Party complying with this Section 14.14.

(c) DWR agrees, and with respect to Utility, it is ordered that each Party shall designate on Attachment A the person(s) to be contacted with respect to specific operational matters. Each Party shall be entitled to specify any change to such person(s) upon written notice to the other Party complying with this Section 14.14.

(d) DWR agrees, and with respect to Utility, it is ordered that copies of documents required by this Servicing Order to be delivered to the Commission shall be delivered in accordance with this Section 14.14 and shall be addressed as set forth below:

California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102

Attn: Sean Gallagher, Esq.
Energy Division Director
Telephone: (415) 703-2059
Facsimile: (415) 703-2200
Email: shg@cpuc.ca.gov

14.15. Good Faith.

DWR agrees to, and Utility is ordered to, perform all its actions, obligations and duties in connection with this Servicing Order in good faith.

14.16. Approval.

This 2006 Servicing Order, which amends and restates the 2003 Servicing Order, shall be effective when approved by the Commission. Except as expressly provided otherwise herein, neither Party may commence performance hereunder until such date. Any delay in the commencement of performance hereunder as a consequence of waiting for such approval(s) and the expiry of any waiting period shall not be a breach or default under this 2006 Servicing Order.

The First Amended and Restated Servicing Agreement as amended by Amendment No. 1 (the "original Servicing Agreement"), as further amended by the changes set forth in the 2003 Servicing Order and this 2006 Servicing Order, shall remain in full force and effect. All references to the "Servicing Agreement" or to the "Agreement" in the original Servicing Agreement or in the 2003 Servicing Order shall hereafter mean this 2006 Servicing Order, unless the context requires a different interpretation. The Parties intend this 2006 Servicing Order to amend and restate the original Servicing Agreement and the 2003 Servicing Order, and in the event of irreconcilable conflict between the terms of the original Servicing Agreement, the 2003 Servicing Order and this 2006 Servicing Order, the terms of this 2006 Servicing Order shall control.

The 2006 Servicing Order shall be effective at such time it has been approved by the Commission, and until such time, the 2003 Servicing Order shall remain in full force and effect.

14.17. Attachments.

The following attachments are incorporated in this Servicing Order:

Service Attachment 1 – Utility Billing Services

SA1-1

Service Attachment 2 – DWR Surplus Energy Sales Revenues Remittance

SA2-1

Attachment A -	Representatives and Contacts	A-1
Attachment B -	Remittances of DWR Charges	B-1
Appendix A-1:	Bill Determination - Bundled Customer Bond Charge	A-1-1
Appendix A-2:	Bill Determination - Bundled Customer - Power Charge	A-2-1
Appendix B-1:	Bill Determination - Direct Access Bond Charge	B-1-1
Appendix B-2:	Bill Determination - Direct Access Power Charge	B-2-1
Appendix C-1:	Bill Determination - Customer Generation Departing Load Bond Charge	
Appendix C-2:	Bill Determination - Customer Generation Departing Load Power Charge	
Appendix D-1:	Bill Determination - Municipal Departing Load Bond Charge	D-1-1
Appendix D-2:	Bill Determination - Municipal Departing Load Power Charge	D-2-1
Appendix E-1:	Bill Determination - Community Choice Aggregation Bond Charge	
Appendix E-2:	Bill Determination - Community Choice Aggregation Power Charge	
Attachment C -	Sample Daily and Monthly Reports	C-1
Attachment D -	[Reserved]	D-1
Attachment E -	Additional Provisions	E-1
Attachment F -	Calculation Methodology for Reduced Remittances Pursuant to 2010 Program	
Attachment G -	SDG&E Fee Schedule	G-1
Attachment H -	[Not Applicable]	H-1

SERVICE ATTACHMENT 1

SAN DIEGO GAS & ELECTRIC COMPANY

UTILITY BILLING SERVICES

Section 1. Establishment and Maintenance of Utility Billing Services.

To the extent appropriate under Applicable Commission Orders, under Utility Billing Services with respect to Customers, Utility will include DWR Charges with its Utility Charges on such Customers' Utility Bills on a consolidated basis. In addition, to the extent appropriate under Applicable Commission Orders, Utility will calculate appropriate DWR Charges under or pursuant to Applicable Law with respect to all Customers and collect DWR Charges by preparing and presenting Utility Bills or by causing to be prepared and presented Non-Utility Bills. In the event that any portions of DWR Charges are to be collected by a Non-Utility, with bills that have been calculated and prepared by Utility, Utility will cause the appropriate DWR Charges to be included in such Non-Utility Bills for collection on behalf of DWR.

Section 2. Utility Billing Services Procedures.

2.1. Compliance with Metering Standards. Except to the extent that such Services are provided by a third-party:

- (a) Utility shall comply with all metering standards pursuant to Applicable Tariffs.
- (b) Utility shall read and validate data from meters, and edit and estimate such data, under the terms of Applicable Tariffs.
- (c) Utility shall maintain, store and provide current and historical meter and usage data as required by Applicable Tariffs.

2.2. Presentation of DWR Charges on Utility Bill.

- (a) DWR Charges shall appear on all Utility Bills or Non-Utility Bills on consolidated basis with Utility Charges in the manner and at the time required by Applicable Law and Applicable Tariffs.
- (b) Notwithstanding subsection (a) above, the Utility may change the manner of bill presentation of DWR Charges upon the agreement of DWR or at the request of DWR and upon agreement by the Utility. Such agreement by DWR or Utility is not to be unreasonably withheld.
- (c) Notwithstanding subsections (a) and (b) above, no change shall be made to Utility Bill formats without the approval of the Commission, if the Commission's approval is required under Applicable Law and Applicable Tariffs.
- (d) Notwithstanding subsections (a), (b), and (c) above, the Utility Bill shall (i) at all times contain a separate line item for Bond Charge, if applicable, and (ii) (A) so long as DWR is providing Power to Bundled Customers, contain a statement to the effect that the Utility Bills include charges for power provided by DWR for which DWR is collecting "X" cents per kilowatt hour (where X = the applicable Power Charge rate) or, (B) in the case of Customers other than Bundled Customers who are subject to any cost determined to be ongoing DWR power charge component of CRS, then indicate that Utility Bills include Cost Responsibility Surcharge for which DWR is collecting "X" cents per kilowatt hour (where X = the applicable CRS component rate).

2.3. Billing Costs.

DWR agrees that Utility shall be reimbursed for the reasonable costs of the Billing Services it performs for DWR under this Servicing Order, except for those costs that would have been incurred in providing Billing Services for Customers in the absence of this Servicing Order. DWR agrees that the Commission has jurisdiction to address any dispute concerning the reasonableness of the costs of Billing Services charged to DWR under this Servicing Order.

2.4. Adjustments to DWR Charges.

Utility will resolve all disputes with Customers subject to Utility Billing Service relating to DWR Charges consistent with Applicable Tariffs and prevailing industry standards. Utility will not waive any late payment fee or modify the terms of payment of any amounts payable by Customers subject to Utility Billing Services unless such action is consistent with the action taken with respect to its own Charges and Applicable Tariffs.

In the event that DWR is entitled by Applicable Law to collect any additional charge as a component of DWR Charges, DWR agrees, and Utility is ordered to negotiate the amendment(s) to this Servicing Order that is (or are) appropriate in order to facilitate the calculation and collection of such a charge, and any such amendment shall be submitted to the Commission for approval. For purposes of this paragraph of Section 2.4, "charge" means any amount that DWR is entitled, under Applicable Law, to assess and collect from a Customer and is intended to be included in the term DWR Charges.

2.5. Format of Utility Bills.

Utility shall conform to such requirements in respect of the format, structure and text of Utility Bills as Applicable Law and Applicable Tariffs shall from time to time prescribe. Utility shall, subject to the requirements of Sections 1 and 2 of this Service Attachment 1, determine the format and text of Utility Bills in accordance with its reasonable business judgment, and its policies and practices with respect to its own charges.

2.6. Customer Notices.

(a) If DWR Charges are revised at any time, Utility shall, to the extent and in the manner and timeframe required by Applicable Law, provide Customers subject to Utility Billing Services with notice announcing such revised DWR Charges. Such notice shall, as appropriate, include publication, inserts to or in the text of the bills or on the reverse side of bills delivered to such Customers, and/or such other means as Utility may from time to time use to communicate with its Customers subject to Utility Billing Services. The format of any such notice shall be determined by the mutual agreement of the Parties, subject to approval by the Commission's public advisor.

(b) In addition, at least once each year, to the extent permitted by Applicable Law, Utility shall cause to be prepared and delivered to Customers subject to Utility Billing Services a notice stating, in effect, that DWR Power and DWR Charges, including such CRS components of DWR Charges, are owned by DWR and not the Utility, in the case where Utility Bills are presented. Such notice shall be included, in a manner and format to be agreed upon by the Parties, subject to approval by the Commission's public advisor, either as an insert to or in the text of the bills or on the reverse side of bills delivered to such Customers subject to Utility Billing Services or shall be delivered to such Customers by electronic means or such other means as Utility may from time to time use to communicate with such Customers.

(c) To the extent that any DWR Charges are collected through Non-Utility Bills, Utility shall notify the Non-Utility as to any notices and provide inserts or the text of such notices to be sent to Customers. At least once each year, such notice to be sent by a Non-Utility shall consist of the notice described in Section 2.6(b) above, stating, in effect, that DWR Power and DWR Charges, including such CRS components of DWR Charges, are owned by DWR and not the Non-Utility performing the billing and collection services.

2.7. Delivery.

Utility shall deliver or cause to be delivered all Utility Bills (i) by United States Mail in such class or classes as are consistent with policies and practices followed by Utility with respect to its own charges or (ii) by any other means, whether electronic or otherwise, that Utility may from time to time use to present its own charges to Customers. In the case of Utility Billing Service, Utility shall pay from its own funds all costs of issuance and delivery of Utility Bills, including but not limited to printing and postage costs as the same may increase or decrease from time to time, except to the extent that the presentation of DWR Charges and any associated bill messages or notices (including, without limitation, bill inserts and published notices) materially increase the costs in which case such increase in costs shall be borne solely by DWR. To the extent practicable, Utility agrees to give DWR seven calendar days prior written notice of any such additional costs. Any such increased costs shall be invoiced to DWR as Additional Charges and shall be subject to the provisions of Section 7 of the Servicing Order.

Section 3. Customer Payments.

Utility shall permit Customers receiving Utility Bills to pay DWR Charges through any of the payment options then offered by Utility to such Customers for payment of Utility Charges appearing on the Utility Bill. Utility shall not permit Customers to direct how partial payments of balances due on Utility Bills will be applied. Utility will credit all payments received from a Customer as set forth in Attachment B hereto and Appendices thereto.

Section 4. Collection and Nonpayment.

4.1. Collection of DWR Charges.

Utility will collect or cause to be collected DWR Charges in accordance with its standard practices, and will notify Customers subject to Utility Bills of amounts overdue for DWR Charges in accordance with such practices. Such collection practices shall conform to all requirements of Applicable Law and Applicable Tariffs. Utility will post all payments for DWR Charges as promptly as practicable, including all payments received from any Non-Utility which are components of DWR Charges, but in no case less promptly than Utility posts payments for Utility Charges.

4.2. Termination of Customer's Electrical Service.

Utility shall adhere to and carry out disconnection policies in accordance with Applicable Law.

Section 5. Taxes and Fees Service.

Subject to Section 7.3, Utility will calculate and collect through Utility Bills or Non-Utility Bills and remit to the various authorities the taxes and fees assessed to Customers on DWR Charges.

Section 6. Late Payments.

In the event that Utility receives late payment interest charges from a Customer subject to Utility Billing Service, such payment shall be allocated to DWR based upon the same proportion that DWR Charges bear to the total Utility Charges on the Utility Bill. Other than the third-party fees or costs set forth in Section C3 of Attachment B hereto, Utility shall not allocate to DWR any other additional late payment service charges or collection fees (including but not limited to disconnection or reconnection services or similar charges related to Customer defaults).

SERVICE ATTACHMENT 2

SAN DIEGO GAS & ELECTRIC COMPANY

DWR SURPLUS ENERGY SALES REVENUES REMITTANCE

Consistent with the principles set forth in Exhibits C and D of the Operating Order (as such Exhibits may be amended or supplemented on or after the Effective Date of this 2006 Servicing Order), Utility shall determine and remit DWR Surplus Energy Sales Revenues, consisting of a Preliminary Monthly Surplus Energy Sales Remittance Amount and a Delivery Month Surplus Energy Sales True-up Amount with respect to each Delivery Month, all as further provided in this Service Attachment 2. Each "Delivery Month" consists of all days on or after the Operating Order Effective Date within a calendar month of the Term, including the calendar month of the Operating Order Effective Date. Any capitalized term used but not defined in this Service Attachment 2 shall have the meanings provided in Exhibit C of the Operating Order or this Servicing Order.

1. Definitions.

"Preliminary Hourly DWR Surplus Energy Sales Amount" is the product of (i) the Preliminary Hourly DWR Surplus Energy Percentage multiplied by (ii) the hourly Surplus Energy Sales Revenues resulting from Forward Market Sales determined in accordance with the principles in Exhibit C of the Operating Order. The Preliminary Hourly DWR Surplus Energy Percentage is the DWR Surplus Energy Percentage determined in accordance with the principles in Exhibit C of the Operating Order using the most up-to-date scheduled DWR Supply and Utility Supply information available to Utility and a reasonable estimate of ISO Uninstructed Energy.

"Final Hourly DWR Surplus Energy Sales Amount" is DWR's share of the hourly Surplus Energy Sales Revenues resulting from the Forward Market Sales and the ISO Real-Time Market Sales determined in accordance with the principles in Exhibits C and D of the Operating Order.

2. Preliminary Monthly Surplus Energy Sales Remittance Amount. By the 23rd day of the month, or if such date is not a Utility Business Day then the immediately succeeding Utility Business Day, during the Term (each, a "Monthly Settlement Date"), Utility shall calculate and notify DWR in writing as to the "Preliminary Monthly Surplus Energy Sales Remittance Amount," which is the aggregation of all Preliminary Hourly DWR Surplus Energy Sales Amounts within the subject Delivery Month. By the Monthly Settlement Date, the calculation of the Preliminary Monthly Surplus Energy Sales Remittance Amount shall be presented to DWR in the Preliminary Surplus Energy Sales Calculation Summary Report substantially in the form set forth in Section 2B of Attachment C to this Servicing Order.

By the second Utility Business Day following each Monthly Settlement Date, Utility shall remit to DWR the Preliminary Monthly Surplus Energy Sales Remittance Amount to the extent that Utility received such revenues as of the Monthly Settlement Date. The remittance of the Preliminary Monthly Surplus Energy Sales Remittance Amount shall be accompanied by an entry in the Surplus Energy Sales Payment Report, substantially in the form set forth in Section 2A of Attachment C to this Servicing Order.

3. Final Monthly Surplus Energy Sales Remittance Amount. By the Monthly Settlement Date, Utility shall also calculate the "Final Monthly Surplus Energy Sales Remittance Amount," which is the aggregation of all Final Hourly DWR Surplus Energy Sales Amounts with respect to a Delivery Month that is the same calendar month as the ISO trade month for which the ISO Final Market Invoice is due before the Monthly Settlement Date, as well as any Additional Adjustments contemplated in Section 6 of this Service Attachment 2. The ISO Final Market Invoice due dates are specified in the ISO annual payment calendar. By the Monthly Settlement Date, Utility shall (a) present the calculation of the Final Monthly Surplus Energy Sales Remittance Amount to DWR in the Final Surplus Energy Sales Calculation Summary Report substantially in the form set forth in Section 2C of Attachment C to this Servicing Order and (b) submit to DWR the Real Time Surplus Energy Sales Calculation Supporting Workbook substantially in the form set forth in Section 2D of Attachment C to this Servicing Order. Utility will also provide to DWR the Real Time Surplus Energy Sales Calculation Resource Location ID Master List in accordance to the timeline and substantially in the form set forth in Section 2E of Attachment C to this Servicing Order.

4. Delivery Month Surplus Energy Sales True-up Amount. By each Monthly Settlement Date, Utility will subtract the Preliminary Monthly Surplus Energy Sales Remittance Amount previously remitted to DWR for the subject Delivery Month from the Final Monthly Surplus Energy Sales Remittance Amount as set forth in Section 3 of this Service Attachment 2 to determine the "Delivery Month Surplus Energy Sales True-up Amount" and present such calculation as appropriate entries in the Final Surplus Energy Sales Calculation Summary Report as specified in Section 2C of Attachment C to this Servicing Order. By the second Utility Business Day following the Monthly Settlement Date of each month, Utility shall remit such Delivery Month Surplus Energy Sales True-up Amount to DWR if the amount is positive, to the extent that Utility received such revenues as of the Monthly Settlement Date. If the Delivery Month Surplus Energy Sales True-up Amount is negative, this negative True-up Amount may be used to offset the prospective Preliminary Monthly Surplus Energy Sales Remittance Amount and, if the negative True-up Amount exceeds the prospective Preliminary Monthly Surplus Energy Sales Remittance Amount, the Utility and DWR shall confer concerning the offset of the excess amount. Any remittances or request for DWR payment to be prepared under this Section 4 shall be accompanied by an appropriate entry in the Surplus Energy Sales Payment Report as specified in Section 2A of Attachment C to this Servicing Order.

5.

Adjustments and True-ups. If for any period of three consecutive months, the absolute value of the difference between the three-month aggregate Preliminary Monthly Surplus Energy Sales Remittance Amount and the three-month aggregate Final Monthly Surplus Energy Sales Remittance Amount resulting from Forward Market Sales is greater than 10% for such period, the Parties shall negotiate changes to the methodology provided in this Service Attachment 2 so as to reasonably reduce the Forward Market Sales portion of the Delivery Month Surplus Energy Sales True-up Amount for future months. Either Party may, in addition to any other remedies available to the Party, submit the matter to the Commission or other appropriate forum for resolution in the event that the Parties cannot mutually agree to a revised methodology.

6. Additional Adjustments. The Final Monthly Surplus Energy Sales Remittance Amount of a month may also reflect any Additional Adjustments to the Surplus Energy Sales Revenue of a month for which a prior Delivery Month Surplus Energy Sales True-up Amount has been remitted. Additional Adjustments shall consist of any Delivery Month Surplus Energy Sales True-up Amount that Utility received after a prior Delivery Month Surplus Energy Sales True-up Amount remittance and those adjustments mutually agreed to by the Parties, adjustments as a result of settled disputes between the Utility and the third-party purchaser of surplus Power or adjustments expressly permitted under the Contract Allocation Order or by Applicable Law or the Operating Order, as may be amended from time to time.

Each Additional Adjustment shall be accompanied by a detailed written report in a form to be mutually acceptable to the receiving Party. As reasonably requested by DWR, Utility shall provide supporting documentation of any Additional Adjustments.

7. DWR Right to Verify Monthly Surplus Energy Sales Remittance Amount. DWR agrees that it shall have the right but not the obligation following the receipt of the Final Surplus Energy Sales Calculation Summary Report for each Delivery Month to conduct such verification procedures as determined reasonably necessary. In the event that DWR does not agree with the Final Monthly Surplus Energy Sales Remittance Amount following its verification, and to the extent that informal procedures do not resolve the differences identified by DWR, DWR agrees that it will notify Utility in writing of a dispute with respect to such remitted amount. If the Parties are unable to resolve any disputes relating to such DWR Surplus Sales Energy Revenues, either Party may, upon giving five Business Days' notice to the other Party pursue such appropriate remedies including the submission of the dispute to the Commission or other appropriate forum for proposed resolution.

ATTACHMENT A

SAN DIEGO GAS & ELECTRIC COMPANY

REPRESENTATIVES AND CONTACTS

A. Parties Representatives:

Utility Representative:

San Diego Gas & Electric Company
Customer Service - Major Markets
8315 Century Park Court
San Diego, California 92123

Attn: Dawn Osborne
Customer Choice Manager
Telephone: (858) 654-1275
Facsimile: (858) 654-1256
Email: dosborne@semprautilities.com

DWR Representative:

State of California
The Resources Agency
Department of Water Resources
California Energy Resources Scheduling Division
3310 El Camino Avenue, Suite 120
Sacramento, California 95821

Attn: Jim Olson
Chief Financial Management Office
Telephone: (916) 574-1297
Facsimile: (916) 574-0301
Email: jolson@water.ca.gov

B. Utility Contact Persons:

The Utility shall make the following contact person(s) available with respect to the operational matters described below:

1. Billing Services:

San Diego Gas & Electric Company
Financial Reporting & Remittance:
Financial Accounting
101 Ash Street, PZ05B
San Diego, California 92101

Attn: Alan Burye
Principal Accountant
Telephone: (619) 696-2221
Facsimile: (619) 696-4182
Email: aburye@semprautilities.com

For Utility Fees & Charges:

San Diego Gas & Electric Company
Customer Service - Major Markets
8315 Century Park Court
San Diego, California 92123

Attn: Dawn Osborne
Customer Choice Manager
Telephone: (858) 654-1275
Facsimile: (858) 654-1256
Email: dosborne@semprautilities.com

2. Scheduling, Delivery and Transmission:

San Diego Gas & Electric Company
Electric and Gas Procurement
8315 Century Park Court, CP21D
San Diego, California 92123

Attn: Michael Strong
Manager of Electric and Gas Settlements
Telephone: (858) 650-6154
Facsimile: (858) 650-6190
Email: mgstrong@semprautilities.com

3. Surplus Energy Power Sales Remittances:

San Diego Gas & Electric Company
Electric and Gas Procurement
8315 Century Park Court, CP21D
San Diego, California 92123

Attn: Michael Strong
Manager of Electric and Gas Settlements
Telephone: (858) 650-6154
Facsimile: (858) 650-6190
Email: mgstrong@semprautilities.com

4. Utility Filings Impacting DWR Charges:

San Diego Gas & Electric Company
Electric and Gas Procurement
8330 Century Park Court, CP32C
San Diego, California 92123

Attn: Todd Cahill
Regulatory Tariff Manager
Telephone: (858) 654-1745
Facsimile: (858) 654-1788
Email: tcahill@semprautilities.com

C. DWR Contact Persons:

DWR will make the following contact persons available with respect to each of the operational matters described in Section B above:

State of California
The Resources Agency
Department of Water Resources
California Energy Resources Scheduling Division
3310 El Camino Avenue, Suite 120
Sacramento, California 95821

Attn: Jim Olson,
Chief Financial Management Office
Telephone: (916) 574-1297
Facsimile: (916) 574-0301
Email: jolson@water.ca.gov

With a copy to:

Michael Wofford,
Chief IOU Remittance Section
Telephone: (916) 574-0317
Facsimile: (916) 574-2214
Email: mwofford@water.ca.gov

ATTACHMENT B

SAN DIEGO GAS & ELECTRIC COMPANY

REMITTANCES OF DWR CHARGES

Consistent with the remittance methodology set forth in this Attachment B, SDG&E shall remit DWR Charges, consisting of all applicable Fund Types with respect to each applicable Customer Type, on each Utility Business Day of the Term.

A. Billing and Remittance of DWR Charges

In providing Utility Billing Services set forth in Service Attachment 1, the amount included in Utility Bills for the applicable Fund Type of the Customer Type of the DWR Charge shall be calculated by SDG&E as provided in the corresponding Appendix to this Attachment B. By the 7th Utility Business Day after the end of a billing month during the Term, SDG&E will provide to DWR a Monthly Billing Report substantially in the form set forth in Section 1B of Attachment C.

Customer payments for DWR Charges will be collected by SDG&E on behalf of DWR, all as further provided in this 2006 Servicing Order. SDG&E shall remit payments for DWR Charges on a daily basis following the process described in Section B of this Attachment B.

Customer payments for Utility Bills shall be allocated and applied using SDG&E's payment posting priority process described below in Section G of this Attachment B. All partial payments to SDG&E for Utility Bills will be prorated based on the said payment posting priority. During SDG&E's nightly processing during any Utility Business Day, payments for DWR Charges that SDG&E collects on behalf of DWR will be identified and aggregated separately for each Fund Type on all applicable Customer Types, and be credited to DWR's account and be transmitted on the next Utility Business Day, separately for each Fund Type on all Customer Types by electronic funds transfer. The Parties' first preference for electronic funds transfer will be by ACH and their secondary preference will be by wire transfer. SDG&E process timing will dictate which electronic funds transfer will be used.

With respect to each Daily Remittance of DWR Charges, SDG&E shall clearly identify the appropriate Fund Type. In determining the Daily Remittance amount of a Fund Type from an applicable Customer Type, SDG&E may net the amount due to DWR against the amount owed to SDG&E only if the adjustment amount belongs to the same Fund Type from the same Customer Type and SDG&E has obtained prior consent from DWR, which consent shall be given on a case by case basis.

B. Proposed Process and Timeline for DWR Automated Daily Remittance

1. Utility Business Day 0 – SDG&E receives Customer payment and payments are processed. SDG&E's billing system identifies payments and applies DWR portion based on pre-established payment posting criteria, representing a constructive account for DWR. The Parties acknowledge that payments received from Customers consist of payments to SDG&E and payments to DWR and that until DWR's portion is remitted to DWR, such funds will be held together by SDG&E. Until remitted to DWR, SDG&E shall hold DWR's portion of payments in trust for the benefit of DWR (whether or not held together with other monies), consistent with Applicable Law.

2. Utility Business Day 1 - Payments are sent to DWR by 12:00 noon based on remittance schedule. DWR acknowledges delays of up to 3 Utility Business Days may occur due to errors, system failures and other factors. DWR agrees that such delays shall not constitute a default pursuant to Section 5.2 of the Servicing Order; provided, however, that SDG&E shall undertake commercially reasonable efforts to rectify any cause for such delay. SDG&E shall promptly notify DWR when any such delay occurs and the expected date for returning to the normal schedule. In cases where ACH electronic payment is remitted, SDG&E will remit to its bank on Utility Business Day 1. DWR agrees that this payment meets SDG&E's remittance schedule requirements pursuant to this Attachment B.

3. Adjustments for misapplied payments, returned checks, payment transfers, and miscellaneous adjustments will be reflected in the Remittance with respect to each Fund Type of applicable Customer Type, as those adjustments are made in SDG&E's billing system.

4. Daily Remittances shall be accompanied by a single Daily Remittance Report separately identifying the remitted amounts of DWR Charges of each Fund Type of each Customer Type, substantially in the form set forth in Section 1A of Attachment C.

C. Collection of DWR Charges

1. As permitted by Applicable Law, SDG&E will disconnect Customers' electric service for unpaid DWR Charges. Disconnection for DWR Charges will be performed in the same manner as SDG&E disconnects for its own charges and consistent with Applicable Tariffs.

2. Responsibility for collection of any DWR Charges that remain unpaid 180 calendar days after the final statement was issued shall become the sole responsibility of DWR. However, Customer payments received by SDG&E after such reversion to DWR will continue to be applied on a pro-rata basis to DWR.

3. SDG&E may use collection agency services to recover outstanding balances on Customers' closed accounts. When DWR receives benefit of such services through recovery of payments to Customer accounts, Parties agree that DWR's Remittances will be adjusted to account for the pro-rata share of collection agency fees associated with DWR's portion of recovered charges.

By the 7th Utility Business Day after the end of a billing month during the Term, SDG&E will provide to DWR a Monthly DWR Charge-Off and Recovery Report, substantially in the form set forth in Section 1E of Attachment C.

D. Survival of Payment Obligations

SDG&E has the right but not the obligation to pursue collection of DWR Charges after 180 calendar days following the termination of this Servicing Order pursuant to Section 5. Provided, however, SDG&E may continue collection services for a period of 3 years after the Customer's account was closed if prior to the termination of this Servicing Order the Parties reach a mutually satisfactory arrangement either to (i) reimburse SDG&E for its estimated reasonable costs to continue with collection and allocation activities for such period or (ii) estimate the amount of collections that are reasonably likely to be recovered, which amount (including discounts for cash flow impacts) SDG&E shall promptly remit to DWR in full satisfaction of its collection services.

E. Deposits Securing DWR Charges

In accordance with Applicable Tariffs, SDG&E shall collect security deposits from Customers and return those security deposits to Customers. Such security deposits will be applied pro rata to DWR Charges in the event a Customer's billing account with SDG&E is closed.

F. Other Operating Revenue Collected by SDG&E

DWR shall have no rights in or entitlements to charges associated with SDG&E's collection or payment activities, including but not limited to, returned check charge, reconnection of service charge, field assignment charge, and other service charges related to billing, payment, or collections. However, pursuant to Section 6 of Service Attachment 1, late payment interest charges will be applied pro-rata to DWR Charges. By the 7th Utility Business Day of each billing month during the Term, SDG&E will provide to DWR a Monthly Late Payment Charge Report presenting the calculation of pro-rata sharing of late payments for the preceding month substantially in the form set forth in Section 1D of Attachment C.

G. Payment Posting Priority for Utility Billing

1. Priority

Payment posting rules for Utility Bills will assign equal priority to SDG&E gas and electric energy and service charges and DWR Charges to the extent that such charges are presented on a Utility Bill. To the extent a Customer's security deposit request has been included on the customer's monthly billing statement, the Customer's payment will be first applied to the outstanding deposit amount. Thereafter, payments will be prorated among disconnectible SDG&E gas and electric energy and service charges and DWR Charges based on the amount owing in each statement, beginning with the oldest statement. SDG&E's payment posting priority enables SDG&E to make timely payments to SDG&E, DWR, and other agencies/Cities where SDG&E is required to collect surcharges, fees and taxes. Any other outstanding disconnectible and non-connectible charges will be paid with any remaining credit balance.

2. Payment Posting Rules for Utility Billing

a. Payments will be applied to outstanding charges from the oldest statement first.

b. The amount of payment applied to SDG&E's gas and electric energy/service charges on a Utility Bill will be applied on a pro-rata basis between SDG&E gas and electric energy/service charges in the following illustrative manner:

<u>Sample:</u>	<u>Electric</u>	<u>Gas</u>	<u>Total</u>
Bill Date 1/10/06	\$100.00	\$100.00	\$200.00
% of Total	50%	50%	100%
Payment 1/25/06	\$50.00	\$50.00	\$100.00
% of Total	50%	50%	100%

3. To the extent that SDG&E's Utility Bill also includes applicable DWR Charges, the amount of payment/credit applied for electric energy/services on such Utility Bill will be prorated among all unpaid disconnectible SDG&E electric energy/service charges and DWR Charges based on the amount owing in each category in the following illustrative manner:

<u>Sample:</u>	<u>SDG&E</u>	<u>Sum of All DWR FF/Taxes</u>		<u>Total</u>
		<u>Charges</u>		
Bill Date 1/10/06	\$35.00	\$60.00	\$5.00	\$100.00
% of Total Billed	35%	60%	5%	100%
Payment 1/25/06	\$17.50	\$30.00	\$2.50	\$50.00
% of Total Payment	35%	60%	5%	100%

4. The payment/credit for the sum of all DWR Charges determined in Step 3 above shall be further prorated between unpaid DWR Power Charge and Bond Charge of a Customer Types in the following illustrative manner:

<u>Sample:</u>	<u>Power Charge</u>	<u>Bond Charge</u>	<u>Total</u>
Bill Date 1/10/06	\$54.00	\$6.00	\$60.00
% of Total Billed DWR Charges	90%	10%	100%
Total Payment Credited to DWR 1/25/06	\$27.00	\$3.00	\$30.00
% of Total Payment Credit to DWR 1/25/06	90%	10%	100%

H. Reporting of DWR Charges Billing, Collection and Remittance

Prior to the Effective Date, SDG&E has sent e-mail notices to DWR at least monthly that provided the following billing data or information of DWR Charges as such charges became effective.

- Daily aggregate of billed individual Customer consumptions for each Customer Type relating to DWR Charges;
- Daily aggregate of billed individual Customer consumptions subject to each Fund Type on each applicable Customer Type, excluding Customer consumptions relating to Power Charge and Bond Charge on Bundled Customers;
- DWR's share of daily aggregate of billed individual Bundled Customer consumptions for determining Power Charge on Bundled Customers; and
- Daily aggregate of billed dollar amounts for each Fund Type on each applicable Customer Type.

In addition, the billed individual Customer consumption and dollar amount for a Fund Type on a Customer Type in the billing data or information listed above would have been and will continue to be determined consistent with the methodology provided in the appropriate Appendix to this Attachment B.

Further, SDG&E sent e-mail notices to DWR each Utility Business Day prior to the Effective Date that provided the following remittance information of DWR Charges as such charges became effective.

- Remittance processing date;
- Daily Remittance amounts for each Fund Type on each applicable Customer Type; and
- Previous month recovery of charged off amounts.

Also prior to the Effective Date, SDG&E sent e-mail notices to DWR each month that provided a Monthly Late Payment Charge Report presenting the calculation of pro-rata sharing of late payment charge collection and a Monthly DWR Charge and Recovery Report presenting information concerning the charge-off and recovery of DWR Charges.

On and after the Effective Date, SDG&E will provide the reports contemplated in this Attachment B, substantially in the forms set forth in Attachment C or as may from time to time be modified as mutually agreed to by the Parties or ordered by the Commission. To the extent that a different collection rate is to be applied to a sub-group within a Customer Type identified in the 2006 Servicing Order pursuant to a future Applicable Commission Order, unless SDG&E and DWR mutually agree to a different reporting format, SDG&E will provide the same information identified in the reporting form related to the original Customer Type as to any sub-group identified within that Customer Type.

Unless expressly provided otherwise, on and after the Effective Date of this Servicing Order, SDG&E is directed to transmit to DWR all the reports contemplated in Attachment B via secure electronic means or email (password protected or otherwise, as more specifically provided in Attachment C), provided in Microsoft Excel® workbook file format or, to the extent necessary from time to time in comma separated value or fixed width text files, all as further provided in Attachment C.

I. Historical Remittance Methodologies

Historical remittance methodologies for specific Fund Types on specific Customer Types for specific historical time periods may differ from the remittance methodologies described in this Attachment B. Such historical remittance methodologies are included in the appropriate Appendices to this Attachment B.

J. Utility Filings Impacting DWR Charges

To the extent that SDG&E intends to revise (i) any effective remittance rate for any DWR Charge or (ii) any SDG&E collected rates which would modify effective remittance rate for any CRS component, in either case, applicable to a Customer Type being collected under this 2006 Servicing Order through a filing prepared and submitted by SDG&E to the Commission (hereinafter "DWR Charge Revision"), SDG&E will notify DWR of any such future Commission filings as provided in this Paragraph. Unless the Commission fails to provide SDG&E with at least two (2) Utility Business Days' notice of a requirement to file a DWR Charge Revision, no less than two (2) Utility Business Days prior to SDG&E's submission of the filing to the Commission, SDG&E will notify the DWR Contact Persons listed in Section C of Attachment A ("DWR Contact Persons") or other DWR representative as mutually agreed to by the Parties, that SDG&E intends to submit a filing to the Commission that changes the effective DWR Charge remittance rate; provided, however, that in the event that SDG&E has less than two (2) Utility Business Days' notice of a requirement to file, SDG&E will notify DWR as soon as is practicable. In the event that the Commission has directed SDG&E and

DWR to work collaboratively on the DWR Charge Revision, SDG&E will provide the relevant supporting work papers for the DWR Charge Revision to DWR no later than the time SDG&E provides notice as specified in this paragraph. With respect to all other DWR Charge Revisions filed by SDG&E, after filing of the DWR Charge Revision with the Commission, SDG&E will provide the relevant supporting work papers for a DWR Charge Revision if such papers are requested by DWR. Upon submission of the filing to the Commission, SDG&E will forward a copy of the final SDG&E filing to the DWR Contact Persons within two (2) Utility Business Days of the filing date. When the Commission notifies SDG&E of its action concerning the filing, SDG&E will provide a copy of the Commission's letter, resolution, or other document concerning the filing to the DWR Contact Persons within five (5) Utility Business Days of receipt thereof. SDG&E further agrees to maintain a summary of its Commission filings concerning DWR Charges and other matters covered by this 2006 Servicing Order, and SDG&E will forward an updated copy of such summary to the DWR Contact Persons within 30 days of the end of each calendar quarter. SDG&E's non-compliance with its obligations under this Paragraph J will not constitute a material breach under this 2006 Servicing Order and shall not be considered an Event of Default under this 2006 Servicing Order.

K. Collection of DWR Charges through Non-Utility Bills

In the event that any component of DWR Charges are calculated by SDG&E but billed and collected through Non-Utility Bills, SDG&E will agree to provide daily and monthly reports with respect to collections remitted through Non-Utility Bills in the same format as the Fund Type of the Customer Type provided in Attachment C of this 2006 Servicing Order. To the extent that any of the requested data included in the reports are not reasonably available to SDG&E, upon notification by SDG&E, DWR agrees to modify the affected reports to be able to reasonably address the concerns of the Parties.

APPENDIX A-1

SAN DIEGO GAS & ELECTRIC COMPANY

BILL DETERMINATION - BUNDLED CUSTOMER BOND CHARGE

This Appendix A-1 to Attachment B of the Servicing Order sets forth specific methodology to be applied in determining the billed dollar amount of Bond Charge on a Bundled Customer.

The dollar amount of Bond Charge billed or re-billed to a Bundled Customer is the product of (i) the electric consumption subject to Bond Charge billed or re-billed to the Bundled Customer and (ii) the Bundled Customer Bond Charge rate applicable to the period of such electric consumption. All electric consumption of a Bundled Customer is subject to Bond Charge unless exempt by Applicable Commission Orders.

In cases in which the Bundled Customer Bond Charge rate changes during the period of the electric consumption subject to Bond Charge billed or re-billed to a Bundled Customer, SDG&E shall apply each of the differing Bundled Customer Bond Charge rates over such period to a portion of such consumption in proportion to the number of calendar days within the period that each rate was effective.

APPENDIX A-2

SAN DIEGO GAS & ELECTRIC COMPANY

BILL DETERMINATION - BUNDLED CUSTOMER POWER CHARGE

This Appendix A-2 to Attachment B of the Servicing Order sets forth specific methodology to be applied in determining the billed dollar amount of Power Charge on a Bundled Customer. In addition, this Appendix A-2 provides an account of historical remittance methodologies for Bundled Customer Power Charge applicable for specific historical time periods. All capitalized terms shall have the meanings set forth in the body of the Servicing Order or Attachment B; provided that any capitalized terms specifically defined and used in this Appendix A-2 shall have the meanings set forth herein and, unless otherwise stated, such defined terms shall only apply in this Appendix A-2.

A. Determination of Billed Dollar Amount for Power Charge on a Bundled Customer

The dollar amount of Power Charge billed or re-billed to a Bundled Customer shall be the product of (i) the electric consumption billed or re-billed to the Bundled Customer (ii) the Bundled Customer Power Charge rate in dollar per kilowatt-hour applicable to the period of the consumption and (iii) the corresponding "Individual Customer Billing Cycle Average DWR Percentage" (described below).

In cases in which the Bundled Customer Power Charge rate changes during the period of the electric consumption subject to Power Charge billed or re-billed to a Bundled Customer, SDG&E shall apply each of the differing Bundled Customer Power Charge rates over such period to a portion of such consumption in proportion to the number of calendar days within the period that each rate was effective.

SDG&E shall determine the "Individual Customer Billing Cycle Average DWR Percentage" over the period of electric consumption subject to Power Charge billed or re-billed to a Bundled Customer as the average of all hourly "Rate Group Average DWR Energy Percentages" over such period weighted by the statistical or dynamic load profile of the rate group of the Bundled Customer over the same period. SDG&E shall calculate each hourly "Rate Group Average DWR Energy Percentage" of a rate group as the rate group *pro rata* share of the Hourly Percentage Factor described in Part I and Part II of this Appendix A-2, in proportion to the rate group's statistical or dynamic load profile in the same hour as further detailed in SDG&E's Tariff.

SDG&E shall determine the "Hourly Percentage Factor" in accordance with the principles set forth in Attachment H of the 2003 Servicing Order, which included Part I that provides the detailed process of the More Precise Remittance Methodology applicable for Power Charges from Bundled Customers before the Operating Order Effective Date and Part II that provides the detailed process of the Post-Transition Remittance Methodology applicable for Power Charges on Bundled Customers on and after the Operating Order Effective Date. With formatting changes, Attachment H of the 2003 Servicing Order is provided below in Part I and Part II of this Appendix A-2.

Part I: More Precise Remittance Methodology

The methodology in this Part I shall be applied for remittance of Power Charges from Bundled Customers before the Operating Order Effective Date.

a). SDG&E Remittance Percentage Calculation and True-up

In accordance with SDG&E's Schedule EECC, as it may be modified or superseded by the Commission from time to time, SDG&E calculates each hour the percentage of Bundled Customers electricity use that is supplied by DWR (the "Hourly Percentage Factor"). This percentage is calculated using Final Hour-Ahead Schedules that reflect estimated Customer electricity use. "Estimated Customer Use" shall be defined as the forecasted Customer usage used to establish the Final Hour-Ahead Schedule adjusted using other data that may become available within one day of the Trade Day, as appropriate, to more accurately reflect actual Bundled Customer usage. As final settlement statements reflecting actual meter data and electricity deliveries are received from the ISO, SDG&E will calculate the actual Hourly Percentage Factors. For each hour, the estimated Hourly Percentage Factor will be subtracted from the actual Hourly Percentage Factor to determine the Hourly Percentage Factor difference. At the end of each month, a weighted average Hourly Percentage Factor difference will be calculated using all trade dates for which SDG&E has received from the ISO final settlement statements during such month. This weighted average difference will then be adjusted, if necessary, by commodity revenue dollars for the different periods to obtain an adjustment percentage that will be applied as an hourly adjustment in the next month's calculations of Hourly Percentage Factors.

b). Detailed Process

1. Hourly Percentage Factor Calculation - This calculation is performed on **T+1** (the day after the energy is used).

For each day **T** (trade date) SDG&E will retrieve from ISO published CERS hour-ahead final schedule the amount of DWR energy that is scheduled from SDG&E.

For each day **T** SDG&E will develop estimates of Bundled Customer usage and imbalance energy for each hour.

These two components, along with output from the True-up Process, will be used to calculate the Hourly Percentage Factor. SDG&E will calculate the Hourly Percentage Factor for each hour of a trade day **T** by: (i) dividing the CERS' Final Hour Ahead Schedule plus estimated imbalance energy schedule for such hour by the SDG&E Estimated Customer Usage for such hour; and (ii) adding the true-up adjustment percentage applicable for the current month, calculated in accordance with Section B.2, below.

2. True-up Process. The ISO publishes final settlement statements on **T + 51** Utility Business Days. The actual meter data on the final settlement statements will be used to calculate the actual Hourly Percentage Factor. The CERS Hour Ahead Final Schedule quantity will be divided by the actual meter data to obtain the actual Hourly Percentage Factor, except that during the term of the Restated Letter Agreement, the sum of the CERS Hour Ahead Final Schedule quantity and the imbalance energy for each corresponding hour will be divided by the actual meter data to obtain the actual Hourly Percentage Factor.

For each hour, the estimated Hourly Percentage Factor will be subtracted from the actual Hourly Percentage Factor to determine the Hourly Percentage Factor difference.

At the end of each month, a weighted average Hourly Percentage Factor difference will be calculated using all trade dates for which final settlement statements were received during that current month. The weight for the average will be the total Customer load, based on actual meter data for each hour. For all trade dates, for which final settlement statements were received during the current month, the actual meter data will be obtained. For each hour, the Hourly Percentage Factor difference will be multiplied by the actual meter data for that hour and then divided by the sum of actual meter data for all hours in the month. All the individual hour weighted results for that month will then be summed to obtain the weighted average Hourly Percentage Factor difference.

The Hourly Percentage Factor will then be adjusted by the commodity revenue dollars for the two time periods: (i) trade dates for which final settlement statements were received, and (ii) next calendar month). Average commodity revenue dollars represent the combined billed electric commodity revenues for both SDG&E and DWR (in dollars). The weighted average Hourly Percentage Factor difference will be multiplied by commodity revenue dollars for the trade dates for which final settlement statements were received divided by next forecasted average commodity revenue dollars for the next calendar month.

This adjusted percentage will then be applied as the true-up adjustment percentage in the next month's Hourly Percentage Factor calculations. The true-up adjustment percentage will be added to the calculation of the Hourly Percentage Factor in accordance with Item 1 of this Part I.

Part II Post-Transition Remittance Methodology

The methodology in this Part II shall be applied for remittance of Power Charge on Bundled Customers on and after the Operating Order Effective Date.

a). SDG&E Remittance Percentage Calculation and True-up

In accordance with SDG&E's Schedule EECC, as it may be modified or superseded by the CPUC from time to time, SDG&E calculates each hour the percentage of Bundled Customers electricity use that is supplied by DWR (the "Hourly Percentage Factor"). This percentage is calculated using Final Hour-Ahead Schedules and other information reasonably available to SDG&E within one day of the Trade Day that reflect estimated dispatched quantities of SDG&E integrated portfolio resources including the Allocated Contracts as well as estimated Bundled Customer electricity use. "Estimated Customer Use" shall be defined as the forecasted Customer usage used to establish the Final Hour-Ahead Schedule adjusted using other data that may become available within one day of the Trade Day, as appropriate, to more accurately reflect actual Customer usage. As final settlement statements reflecting actual meter data and electricity deliveries are received from the ISO, SDG&E will calculate the actual Hourly Percentage Factor. For each hour, the estimated Hourly Percentage Factor will be subtracted from the actual Hourly Percentage Factor to determine the Hourly Percentage Factor difference. At the end of each month, a weighted average Hourly Percentage Factor difference will be calculated using all trade dates for which SDG&E has received from the ISO final settlement statements during such month. This weighted average difference will then be adjusted, if necessary, by commodity revenue dollars for the different periods to obtain an adjustment percentage that will be applied as an hourly adjustment in the next month's calculations of Hourly Percentage Factor.

b). Detailed Process

1. Hourly Percentage Factor Calculation. This calculation is performed on **T + 1** (the day after the energy is used).

For each day **T** (trade date) SDG&E will retrieve from ISO published hour-ahead final schedules of SDG&E integrated portfolio resources including the Allocated Contracts.

For each day **T**, SDG&E will develop estimates of Bundled Customer usage.

These two components, along with output from the True-up Process, will be used to calculate the Hourly Percentage Factor. SDG&E will calculate the Hourly Percentage Factor for each hour of a trade day **T** in accordance with the principles provided in Exhibit C of the Operating Order; and (ii) adding the true-up adjustment percentage applicable for the current month, calculated in accordance with Item.2 below.

2. True-up Process. The ISO publishes final settlement statements on **T + 51** Utility Business Days. The actual meter data on the final settlement statements will be used to calculate the actual Hourly Percentage Factor in accordance with the principles provided in Exhibit C of the Operating Order.

For each hour the estimated Hourly Percentage Factor will be subtracted from the actual Hourly Percentage Factor to determine the Hourly Percentage Factor difference.

At the end of each month, a weighted average Hourly Percentage Factor difference will be calculated using all trade dates for which final settlement statements were received during that current month. The weight for the average will be the total Bundled Customer load, based on actual meter data for each hour. For all trade dates, for which final settlement statements were received during the current month, the actual meter data will be obtained. For each hour, the Hourly Percentage Factor difference will be multiplied by the actual meter data for that hour and then divided by the sum of actual meter data for all hours in the month. All the individual hour weighted results for that month will then be summed to obtain the weighted average Hourly Percentage Factor difference.

The Hourly Percentage Factor will then be adjusted by the commodity revenue dollars for the two time periods: (i) trade dates for which final settlement statements were received, and (ii) next calendar month. Average commodity revenue dollars represent the combined billed electric commodity revenues for both SDG&E and DWR (in dollars). The weighted average Hourly Percentage Factor difference will be multiplied by commodity revenue dollars for the trade dates for which final settlement statements were received divided by next forecasted average commodity revenue dollars for the next calendar month.

This adjusted percentage will then be applied as the true-up adjustment percentage in the next month's Hourly Percentage Factor calculations. The true-up adjustment percentage will be added to the calculation of the Hourly Percentage Factor in accordance with Sub-section (b)(1) above.

B. Additional Applicable Methodologies

1. Transition Period. The Parties recognize that prior to October 1, 2001, SDG&E has been remitting Power Charge for Bundled Customers to DWR based upon the interim remittance methodologies described in Decision 01-03-081, adopted by the Commission on March 27, 2001, and Decision 01-05-064, adopted by the Commission on May 15, 2001 (collectively the "Interim Remittance Methodologies"). SDG&E shall reconcile the amounts remitted pursuant to the Interim Remittance Methodologies at the time and in the manner set forth in Attachment B hereto the 2003 Servicing Order.

2. Transition to Billing Effective Date and Reconciliation. The Parties recognize that prior to the date on which SDG&E mailed a consolidated Utility Bill which reflected a separate line item or denotation of DWR Charges (the "Billing Effective Date"), SDG&E has remitted DWR Charges based upon the remittance methodology set forth in the Restated Letter Agreement, dated June 18, 2001 and referenced in Attachment E to this Servicing Order (the "Restated Letter Agreement"). Commencing on the Business Day following the Billing Effective Date, SDG&E commenced daily remittances based upon the procedures set forth herein and in Section 4.2 of the Servicing Agreement approved by the Commission pursuant to Decision 01-09-013, as amended from time to time ("More Precise Billing Methodology").

3. Post-Transition Remittance Methodology. On and after the Operating Order Effective Date, SDG&E shall transition from using the More Precise Remittance Methodology to using the Post-Transition Remittance Methodology as provided in Attachments B and H attached to the 2003 Servicing Order, consistent with the Contract Allocation Order and the Settlement Principles for Remittances and Surplus Revenues as set forth in Exhibit C of the Operating Order, and as further set forth this Servicing Order and Attachment B and this Appendix A-2. This transition will include the continuation of the More Precise Remittance Methodology true-up after the Operating Order Effective Date as long as necessary or appropriate (the "Transition Period") to account for DWR Power provided to Bundled Customers prior to the Operating Order Effective Date. True-Up remittances during the Transition Period using the More Precise Remittance Methodology shall be made in addition to Remittances made in accordance with the Post Transition Remittance Methodology set forth in Attachment H of the 2003 Servicing Order.

4. 2003 One Time Bill Credit. Pursuant to Commission Decision 03-09-018 and consistent with SDG&E Advice Letter 1523-E, SDG&E implemented a one-time bill credit in the aggregate amount of \$135,366,371 to refund DWR Power Charge to Bundled Customers who pay DWR Bond Charge in SDG&E's service territory. With the agreement of DWR and to fund this one-time bill credit, SDG&E withheld then on-going daily DWR Power Charge remittances SDG&E collected from Bundled Customers and Direct Access Customers commencing on September 18, 2003 and ending on November 18, 2003, inclusive, during which period SDG&E remitted no Power Charge from Bundled Customers and Direct Access Customers to DWR. The one-time bill credit procedures are further provided in that certain letter agreement, dated August 30, 2004, between DWR and SDG&E. Pursuant to the letter agreement, SDG&E credited DWR the undistributed One Time Bill Credit in the amount of \$1,731,082.27 against amount DWR owed to SDG&E for DWR Charges related billing and collection system changes.

APPENDIX B-1

SAN DIEGO GAS & ELECTRIC COMPANY

BILL DETERMINATION - DIRECT ACCESS BOND CHARGE

This Appendix B-1 to Attachment B of the Servicing Order sets forth specific methodology to be applied in determining the billed dollar amount of Bond Charge on a Direct Access Customer.

The dollar amount of Bond Charge billed or re-billed to a DA Customer shall be the product of (i) the electric consumption in kilowatt-hours subject to Bond Charge billed to the DA Customer and (ii) the DA Customer Bond Charge rate applicable to the period of such electric consumption. All electric consumption of a DA Customer is subject to Bond Charge unless exempt by Applicable Commission Orders.

In cases in which the DA Customer Bond Charge rate changes during the period of the electric consumption subject to Bond Charge billed or re-billed to a DA Customer, SDG&E shall apply each of the differing DA Customer Bond Charge rates over such period to a portion of such consumption in proportion to the number of calendar days within the period that each rate was effective.

The DA Customer Bond Charge is one of three SDG&E rate components known as the Customer Responsibility Surcharge. As determined by Applicable Commission Orders, the CRS is capped at a specific amount with specific billing priorities. The DA Customer Bond Charge component receives the first billing priority within the capped level that can be billed.

APPENDIX B-2

SAN DIEGO GAS & ELECTRIC COMPANY

BILL DETERMINATION - DIRECT ACCESS POWER CHARGE

This Appendix B-2 to Attachment B of the Servicing Order sets forth specific methodology to be applied in determining the billed amount of Power Charge on a Direct Access Customer.

The dollar amount of Power Charge billed or re-billed to a DA Customer shall be the product of (i) the electric consumption in kilowatt-hours subject to Power Charge billed to the DA Customer and (ii) the DA Customer Power Charge rate applicable to the period of such electric consumption. All electric consumption of a DA Customer is subject to Power Charge unless exempt by Applicable Commission Orders.

In cases in which the DA Customer Power Charge rate changes during the period of the electric consumption subject to Power Charge billed or re-billed to a DA Customer, SDG&E shall apply each of the differing DA Customer Power Charge rates over such period to a portion of such consumption in proportion to the number of calendar days within the period that each rate was effective.

The DA Customer Power Charge is one of three SDG&E rate components known as the Customer Responsibility Surcharge. As determined by Applicable Commission Orders, the CRS is capped at a specific amount with specific billing priorities. The DA Customer Power Charge component receives the third billing priority within the capped level that can be billed.

APPENDIX C-1

SAN DIEGO GAS & ELECTRIC COMPANY

BILL DETERMINATION - CUSTOMER GENERATION DEPARTING LOAD BOND CHARGE

This Appendix C-1 to Attachment B of the Servicing Order sets forth specific methodology to be applied in determining the billed amount of Bond Charge on Customer Generation Departing Load Customers.

The dollar amount of Bond Charge billed or re-billed to a CGDL shall be the product of (i) the metered consumption in kilowatt-hours subject to Bond Charge billed to the CGDL and (ii) the CGDL Bond Charge rate applicable to the period of such electric consumption. All electric consumption of a CGDL is subject to Bond Charge unless exempt by Applicable Commission Orders.

In cases in which the CGDL Customer Bond Charge rate changes during the period of the metered consumption subject to Bond Charge billed or re-billed to a CGDL Customer, SDG&E shall apply each of the differing CGDL Customer Bond Charge rates over such period to a portion of such consumption in proportion to the number of calendar days within the period that each rate was effective.

The CGDL Bond Charge is one of three SDG&E rate components known as the Customer Responsibility Surcharge. As determined by Applicable Commission Orders, the CRS is capped at a specific amount with specific billing priorities. The CGDL Bond Charge component receives the first billing priority within the capped level that can be billed.

APPENDIX C-2

SAN DIEGO GAS & ELECTRIC COMPANY

**BILL DETERMINATION - CUSTOMER GENERATION DEPARTING
LOAD POWER CHARGE**

Commission Decision 03-04-030, corrected by Decision 03-04-041 and clarified in Decision 03-05-039, imposes a CRS, including Bond Charge and Power Charge on Customer Generation Departing Load for load that departed bundled service on or after February 1, 2001. Commission Resolution E-3831 dated July 8, 2004, approved, with modification, the previously filed SDG&E Advice Letter 1488-E on April 17, 2003 to implement the CGDL CRS on non-exempt CGDL.

Currently, no Power Charge has been billed on CGDL. Upon commencement of billing and collection of Power Charge on CGDL, the Parties intend to update this Appendix C-2 to reflect the applicable remittance methods. The Parties further agree that the commencement of billing and collection of Power Charge on CGDL is an event contemplated under Section 10(a)(vi) of this Servicing Order.

APPENDIX D-1

SAN DIEGO GAS & ELECTRIC COMPANY

BILL DETERMINATION OF - MUNICIPAL DEPARTING LOAD BOND CHARGE

Commission Decision 03-07-028, as amended, clarified or modified by Decision 03-08-076, Decision 04-11-014, Decision 04-12-059 and Decision 05-07-038 impose a CRS, including Bond Charge on certain Municipal Departing Load for load that departed bundled service on and after February 1, 2001.

Upon effectiveness of Applicable Commission Order relating to the remittance of Bond Charge by Municipal Departing Load and to the extent SDG&E is involved, the Parties intend to update this Appendix D-1 to reflect the applicable remittance methods. The Parties further agree that the commencement of billing and collection of Bond Charge on Municipal Departing Load is an event contemplated under Section 10(a)(vi) of this Servicing Order to the extent that SDG&E is involved in the transaction.

APPENDIX D-2

SAN DIEGO GAS & ELECTRIC COMPANY

BILL DETERMINATION -MUNICIPAL DEPARTING LOAD POWER CHARGE

Commission Decision 03-07-028, as amended, clarified or modified by Decision 03-08-076, Decision 04-11-014, Decision 04-12-059 and Decision 05-07-038 impose a CRS, including Power Charge on certain Municipal Departing Load for load that departed bundled service on and after February 1, 2001.

Upon effectiveness of Applicable Commission Order relating to the remittance of Power Charge by Municipal Departing Load, and to the extent SDG&E is involved, the Parties intend to update this Appendix D-2 to reflect the applicable remittance methods. The Parties further agree that the commencement of billing and collection of Power Charge on Municipal Departing Load is an event contemplated under Section 10(a)(vi) of this Servicing Order to the extent SDG&E is involved in the transaction.

APPENDIX E-1

SAN DIEGO GAS & ELECTRIC COMPANY

BILL DETERMINATION - COMMUNITY CHOICE AGGREGATION BOND CHARGE

This Appendix E-1 to Attachment B of the Servicing Order sets forth specific methodology to be applied in determining the billed dollar amount of Bond Charge on a Community Choice Aggregation Customer if and when a CCA establishes service within SDG&E's service territory.

The dollar amount of Bond Charge billed or re-billed to a CCA Customer shall be the product of (i) the electric consumption in kilowatt-hours subject to Bond Charge billed to the CCA Customer and (ii) the CCA Customer Bond Charge rate applicable to the period of such electric consumption. All electric consumption of a CCA Customer is subject to Bond Charge unless exempt by Applicable Commission Orders.

In cases in which the CCA Customer Bond Charge rate changes during the period of the electric consumption subject to Bond Charge billed or re-billed to a CCA Customer, SDG&E shall apply each of the differing CCA Customer Bond Charge rates over such period to a portion of such consumption in proportion to the number of calendar days within the period that each rate was effective.

APPENDIX E-2

SAN DIEGO GAS & ELECTRIC COMPANY

BILL DETERMINATION - COMMUNITY CHOICE AGGREGATION POWER CHARGE

This Appendix E-2 to Attachment B of the Servicing Order sets forth specific methodology to be applied in determining the billed amount of Power Charge on a Community Choice Aggregation Customer.

The dollar amount of Power Charge billed or re-billed to a CCA Customer shall be the product of (i) the electric consumption in kilowatt-hours subject to Power Charge billed to the CCA Customer and (ii) the CCA Customer Power Charge rate applicable to the period of such electric consumption. All electric consumption of a CCA Customer is subject to Power Charge unless exempt by Applicable Commission Orders.

In cases in which the CCA Customer Power Charge rate changes during the period of the electric consumption subject to Power Charge billed or re-billed to a CCA Customer, SDG&E shall apply each of the differing CCA Customer Power Charge rates over such period to a portion of such consumption in proportion to the number of calendar days within the period that each rate was effective.

ATTACHMENT C

SAN DIEGO GAS & ELECTRIC COMPANY

SAMPLE DAILY AND MONTHLY REPORTS

SDG&E will provide daily and monthly reports as further described in this Attachment C to DWR. The sample report templates included in this Attachment C have been included for illustrative purposes only. Variations of reports specifications from those in this Attachment C may be implemented upon mutual agreement of the Parties. The report specifications in this Attachment C include all contemplated categories of DWR Charges from Customer Types identified and currently pending in Commission proceedings as well as DWR's sharing of surplus energy sales. Upon approval of this Servicing Order by the Commission, actual reports submitted by SDG&E will only include categories of DWR Charges active during the reporting period.

SDG&E currently does not provide all remittance information and data in Microsoft Excel® workbook format. SDG&E has agreed to implement Microsoft Excel® workbook format as specified in this Attachment C by no later than six months after the Effective Date of this 2006 Servicing Order. In the event that additional time is necessary for SDG&E's implementation of the new format, DWR agrees to discuss and agree to additional time as reasonably requested by SDG&E.

Unless otherwise specifically provided elsewhere in this Attachment C, SDG&E will submit all reports by secure electronic means or password protected e-mails addressed to "IOU_Remit@water.ca.gov" and, in either case, in a Microsoft Excel® workbook format, or to the extent necessary from time to time, in comma separated value or fixed width text files, with the appropriate filename and subject line, all as further provided in this Attachment C.

1.1. Section 1. End-Use Customer Reports

1.2.

1.3. A. Daily Remittance Report

The Daily Remittance Report is to be submitted to DWR on each Utility Business Day of the Term.

(i) **Delivery Mechanism and Naming Convention** - This report should be sent by e-mail to the e-mail address "fmr@water.ca.gov" (or by such secure electronic means as reasonably determined appropriate by SDG&E) with the following filename and subject line:

- The format of the filename: <utility name> - Daily Remittance Report yyyyymmdd v#.xls

Section 1. Example: SDG&E - Daily Remittance Report 20050720 v1.xls

- The subject line of e-mail: <utility name> - Daily Remittance Report for yyyyymmdd

Section 1. Example: SDG&E - Daily Remittance Report for 20050720

Modifications to a submitted report will be accomplished by resending all the data including the necessary modifications and renaming the daily report with the subsequent version number.

Section 2. Example: SDG&E - Daily Remittance Report 20050720 v2.xls

(ii) **Required Information and Timeline** - SDG&E shall report the daily cash balance amounts of DWR Charges with a separate entry for each Fund Type on each applicable Customer Type in the Daily Remittance Reports. The following table defines such daily cash balance amounts. SDG&E shall remit any positive daily cash balance amount due to DWR according to the timeline specified in the Attachment B of the Servicing Order.

DWR Account Reference	Fund Type	Customer Type	Collection Type	Description of Daily Cash
8021360001	Power	Bundled	Remittance	Daily balance of Customer payment netted against any amount due to SDG&E for Bundled Customers Power Charge
8021360002	Power	DA	Remittance	Daily balance of Customer payment netted against any amount due to SDG&E for DA Customers Power Charge
8021360003	Power	CGDL	Remittance	Daily balance of Customer payment netted against any amount due to SDG&E for CGDL Power Charge
8021360004	Power	CCA	Remittance	Daily balance of Customer payment netted against any amount due to SDG&E for CCA Power Charge
8021360010	Power	MDL	Remittance	Daily balance of Customer payment netted against any amount due to SDG&E for MDL Power Charge

8021360001	Power	Bundled	Charge-off Recovery	Daily balance of recovered charge-off on Bundled Customers Power Charge
8021360002	Power	DA	Charge-off Recovery	Daily balance of recovered charge-off on DA Customers Power Charge
8021360003	Power	CGDL	Charge-off Recovery	Daily balance of recovered charge-off on CGDL Power Charge
8021360004	Power	CCA	Charge-off Recovery	Daily balance of recovered charge-off on CCA Power Charge
8021360010	Power	MDL	Charge-off Recovery	Daily balance of recovered charge-off on MDL Power Charge
8059000000	Bond	Bundled	Remittance	Daily balance of Customer payment netted against any amount due to SDG&E for Bundled Customers Bond Charge
8059000001	Bond	DA	Remittance	Daily balance of Customer payment netted against any amount due to SDG&E for DA Customers Bond Charge
8059000002	Bond	CGDL	Remittance	Daily balance of Customer payment netted against any amount due to SDG&E for CGDL Bond Charge
8059000003	Bond	CCA	Remittance	Daily balance of Customer payment netted against any amount due to SDG&E for CCA Bond Charge
8059000004	Bond	MDL	Remittance	Daily balance of Customer payment netted against any amount due to SDG&E for MDL Bond Charge
8059000000	Bond	Bundled	Charge-off Recovery	Daily balance of recovered charge-off on Bundled Customers Bond Charge
8059000001	Bond	DA	Charge-off Recovery	Daily balance of recovered charge-off on DA Customers Bond Charge
8059000002	Bond	CGDL	Charge-off Recovery	Daily balance of recovered charge-off on CGDL Bond Charge
8059000003	Bond	CCA	Charge-off Recovery	Daily balance of recovered charge-off on CCA Bond Charge
8059000004	Bond	MDL	Charge-off Recovery	Daily balance of recovered charge-off on MDL Bond Charge

2.1. Example:

Daily Remittance Report

Date: 7/20/2005
Utility Name: SDG&E

DWR Account Reference	Fund Type	Customer Type	Collection Type	Daily Cash
8021360001	Power	Bundled	Remittance	\$xxx,xxx.xx
8021360002	Power	DA	Remittance	\$xxx,xxx.xx
8021360003	Power	CGDL	Remittance	\$xxx,xxx.xx
8021360004	Power	CCA	Remittance	\$xxx,xxx.xx
8021360010	Power	MDL	Remittance	\$xxx,xxx.xx
8021360001	Power	Bundled	Charge Off Recovery	\$xxx,xxx.xx
8021360002	Power	DA	Charge Off Recovery	\$xxx,xxx.xx
8021360003	Power	CGDL	Charge Off Recovery	\$xxx,xxx.xx
8021360004	Power	CCA	Charge Off Recovery	\$xxx,xxx.xx
8021360010	Power	MDL	Charge Off Recovery	\$xxx,xxx.xx
Power Charge Remittance Amount				\$xxx,xxx.xx
8059000000	Bond	Bundled	Remittance	\$xxx,xxx.xx
8059000001	Bond	DA	Remittance	\$xxx,xxx.xx
8059000002	Bond	CGDL	Remittance	\$xxx,xxx.xx
8059000003	Bond	CCA	Remittance	\$xxx,xxx.xx
8059000004	Bond	MDL	Remittance	\$xxx,xxx.xx
8059000000	Bond	Bundled	Charge Off Recovery	\$xxx,xxx.xx
8059000001	Bond	DA	Charge Off Recovery	\$xxx,xxx.xx
8059000002	Bond	CGDL	Charge Off Recovery	\$xxx,xxx.xx
8059000003	Bond	CCA	Charge Off Recovery	\$xxx,xxx.xx
8059000004	Bond	MDL	Charge Off Recovery	\$xxx,xxx.xx
Bond Charge Remittance Amount				\$xxx,xxx.xx

iii) Wiring or ACH transfer Information - The following information should appear in the wire or ACH transmittal:

<Utility Name> <Fund Type><Collection Date yyyyymmdd>

Example: SDG&E DWR Power 20050720

2.2. B. Remittance Netting Report

The Remittance Netting Report is to be submitted to DWR on any Utility Business Day of the Term on which SDG&E nets amount owed by DWR to SDG&E against the amount of Customer payment for a Charge Type on an applicable Customer Type.

- (i) **Delivery Mechanism and Naming Convention** - The Remittance Netting Report should be attached to the same e-mail transmitting the Daily Remittance Report.

- The format of the filename: <utility name> - Remittance Netting Report yyyyymmdd v#.xls

Section 1. Example: SDG&E - Remittance Netting Report 20050720 v1.xls

Modifications to a submitted report will be accomplished by resending all the data including the necessary modifications and renaming the daily report with the subsequent version number.

- (ii) **Required Information** – The required information is shown in the following example. Except for the Remittance Adjustment and Daily Remittance values, other required information is identical to that for the Daily Remittance Report. The following table defines Remittance Adjustment and Daily Remittance.

Column	Description
Remittance Adjustment	Adjustment applied in determining the daily remittance amount
Daily Remittance Amount	Actual dollar amount remitted to DWR on the given day for a DWR Charge Fund Type on an applicable Customer Type, equal to the difference between the Daily Cash and the Remittance Adjustment

Example (The fictitious numerical values in the following example are for illustrative purpose only):

Daily Remittance Netting Report

Date: 07/20/05		Utility Name: SDG&E				
DWR Account Reference	Fund Type	Customer Type	Collection Type	Daily Cash	Remittance Adjustment	Daily Remittance (>=0)
				(a)	(b)	(c) = (a) - (b)
8021360001	Power	Bundled	Remittance	2,000,000.00	0.00	2,000,000.00
8021360002	Power	DA	Remittance	(5,000.00)	(5,000.00)	0.00
8021360003	Power	CGDL	Remittance	0.00	0.00	0.00
8021360004	Power	CCA	Remittance	0.00	0.00	0.00
8021360010	Power	MDL	Remittance	0.00	0.00	0.00
8021360001	Power	Bundled	Charge Off Rec.	0.00	0.00	0.00
8021360002	Power	DA	Charge Off Rec.	0.00	0.00	0.00
8021360003	Power	CGDL	Charge Off Rec.	0.00	0.00	0.00
8021360004	Power	CCA	Charge Off Rec.	0.00	0.00	0.00
8021360010	Power	MDL	Charge Off Rec.	0.00	0.00	0.00
Total Power Charge Remitted						2,000,000.00
8059000000	Bond	Bundled	Remittance	250,000.00	100,000.00	150,000.00
8059000001	Bond	DA	Remittance	(3,000.00)	(3,000.00)	0.00
8059000002	Bond	CGDL	Remittance	2,000.00	0.00	2,000.00
8059000003	Bond	CCA	Remittance	0.00	0.00	0.00
8059000004	Bond	MDL	Remittance	0.00	0.00	0.00
8059000000	Bond	Bundled	Charge Off Rec.	0.00	0.00	0.00
8059000001	Bond	DA	Charge Off Rec.	0.00	0.00	0.00
8059000002	Bond	CGDL	Charge Off Rec.	0.00	0.00	0.00
8059000003	Bond	CCA	Charge Off Rec.	0.00	0.00	0.00
8059000004	Bond	MDL	Charge Off Rec.	0.00	0.00	0.00
Total Bond Charge Remitted						152,000.00

C. Monthly Billing Report

- (i) **Naming Convention** - The transmittal of this report should use the following naming convention.

- The format of the filename: <utility-name> - Monthly Billing Report yyyyymm#v#.xls

Section 1. Example: SDG&E – Monthly Billing Report 200507v1.xls

- The subject line of e-mail: <utility-name> - Monthly Billing Report for yyyyymm

Section 1. Example: SDG&E – Monthly Billing Report for 200507

- (ii)

Required Information and Timeline - The Monthly Billing Report submitted to DWR by the seventh Utility Business Day of a delivery month. SDG&E shall report the data columns specified in the following table for each Fund Type of DWR Charges on each applicable Customer Type with daily quantities in the Monthly Billing Report. This table is followed by a screen shot of a sample report in Excel.

Column #	Column	Description
1	Date	Utility Business Day (MM/DD/YY)
2	Total Bundled Billed kWh	Sum of all individual Bundled Customer electric consumptions in kilowatt-hours billed in a month
3	Bundled Power Billed kWh	Sum of all Individual Bundled Power Charge Billed kWhs in a month
4	Bundled Power Billed Amount (\$)	Sum of all Individual Bundled Power Charge Billed Dollar Amounts in a month
5	Bundled Bond Billed kWh	Sum of all Individual Bundled Bond Charge Billed kWhs in a month
6	Bundled Bond Billed Amount (\$)	Sum of all Individual Bundled Bond Charge Billed Dollar Amounts
7	Total DA Billed kWh	Sum of all individual DA Customer electric consumptions in kilowatt-hours billed in a month
8	DA Power Billed kWh	Sum of all Individual DA Power Charge Billed kWhs in a month
9	DA Power Billed Amount (\$)	Sum of all Individual DA Power Charge Billed Dollar Amounts in a month
10	DA Bond Billed kWh	Sum of all Individual DA Bond Charge Billed kWhs in a month
11	DA Bond Billed Amount	Sum of all Individual DA Bond Charge Billed Dollar Amounts in a month
12	Total CGDL Billed kWh	Sum of all individual CGDL electric consumptions in kilowatt-hours billed in a month
13	CGDL Power Billed kWh	Sum of all Individual CGDL Power Charge Billed kWhs in a month
14	CGDL Power Billed Amount (\$)	Sum of all Individual CGDL Power Charge Billed Dollar Amounts in a month
15	CGDL Bond Billed kWh	Sum of all Individual CGDL Bond Charge Billed kWhs in a month
16	CGDL Bond Billed Amount	Sum of all Individual CGDL Bond Charge Billed Dollar Amounts in a month
17	Total MDL Billed kWh	Sum of all individual MDL electric consumptions in kilowatt-hours billed in a month
18	MDL Power Billed kWh	Sum of all Individual MDL Power Charge Billed kWhs in a month
19	MDL Power Billed Amount (\$)	Sum of all Individual MDL Power Charge Billed Dollar Amounts in a month
20	MDL Bond Billed kWh	Sum of all Individual MDL Bond Charge Billed kWhs in a month
21	MDL Bond Billed Amount	Sum of all Individual MDL Bond Charge Billed Dollar Amounts in a month
22	Total CCA Billed kWh	Sum of all individual CCA electric consumptions in kilowatt-hours billed in a month
23	CCA Power Billed kWh	Sum of all Individual CCA Power Charge Billed kWhs in a month
24	CCA Power Billed Amount (\$)	Sum of all Individual CCA Power Charge Billed Dollar Amounts in a month
25	CCA Bond Billed kWh	Sum of all Individual CCA Bond Charge Billed kWhs in a month
26	CCA Bond Billed Amount	Sum of all Individual CCA Bond Charge Billed Dollar Amounts in a month

1.1. Example:

Date	Bundled	Bundled Power Charge		Bundled Bond Charge		DA	DA Power Charge		DA Bond Charge	
	Total Bundled Billed kWh	Bundled Power Billed kWh	Bundled Power Billed Amount (\$)	Bundled Bond Billed kWh	Bundled Bond Billed Amount (\$)	Total DA Billed kWh	DA Power Billed kWh	DA Power Billed Amount (\$)	DA Bond Billed kWh	DA Bond Billed Amount (\$)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
7/2/05	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx
7/3/05	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx
7/4/05	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx
7/5/05	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx

CGDL	CGDL Power Charge		CGDL Bond Charge		MDL	MDL Power Charge		MDL Bond Charge	
	Total CGDL Billed kWh	CGDL Power Billed kWh	CGDL Power Billed Amount (\$)	CGDL Bond Billed kWh		CGDL Bond Billed Amount (\$)	MDL Power Billed kWh	MDL Power Billed Amount (\$)	MDL Bond Billed kWh
(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx
xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx
xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx
xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx

CCA	CCA Power Charge		CCA Bond Charge	
	Total CCA Billed kWh	CCA Power Billed kWh	CCA Power Billed Amount (\$)	CCA Bond Billed kWh
(22)	(23)	(24)	(25)	(26)
xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx
xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx
xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx
xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx	xxx,xxx,xxx

1.2. D. Monthly Late Payment Charge Report

1.3. (i) Naming Convention - The transmittal of this report should use the following naming convention.

- The format of the filename: <utility-name> - Monthly Late Payment Charge Report yyyyymmvx.xls

Section 1. Example: SDG&E – Monthly Late Payment Charge Report 200704v1.xls

- The subject line of e-mail: <utility-name> - Monthly Late Payment Charge Report for yyyyymm

Section 1. Example: SDG&E – Monthly Late Payment Charge Report for 200704

- (ii) Required Information and Timeline - The Monthly Late Payment Charge Report will be provided to DWR on the 7th Utility Business Day after the end of a month of the term. The table below lists the data columns that will be required for the Monthly Late Payment Charge Report and explains the formulas to be used for the calculated values in certain data columns.

Column #	Column Title	Description
1	Business Month	The SDG&E Business Month
2	LPC Bill	Total LPC billed in the Business Month
3	DWR Commodity Bill	DWR Bundled Power Charge Billed in the Business Month
4	DWR Bond Charge Bill	DWR Bond Charge billed to all applicable Customer Types the Business Month
5	DWR CRS Power Charge Bill	The Power Charge component of Customer Responsibility Surcharge billed to all applicable Customer Types in the Business Month
6	Total DWR Bill	Total amount of DWR Charge bills (Sum of values in Columns 3, 4 and 5 in the Business Month)
7	Utility Bill	SDG&E revenue billed in the Business Month
8	DWR LPC Share %	DWR's share of LPC billed in the Business Month (Column 6 value in the preceding Business Month divided by Column 7 value in the preceding Business Month)
9	Gross DWR LPC Collection	The DWR's Share of LPC collected in the Business Month (Column 8 value in the preceding Business Month multiplied by Column 2 value in the preceding Business Month)

10	C&I Charge-Off %	Percentage of the bad debt charge-off for amounts billed to commercial and industrial customers in the Business Month
11	DWR LPC Charge-Off	DWR's share of late payment charge bad debt (Column 9 value in the Business Month multiplied by Column 10 value in the same Business Month)
12	DWR LPC Collection Cost	DWR's share of collection agency commission for collecting the late payment charge in the Business Month
13	Net DWR LPC Collection	Net DWR LPC collection in the Business Month (Column 9 value in the Business Month less Column 12 value in the same Business Month and less Column 11 value six Business Months ago)
14	DWR LPC Collection - Commodity	Net DWR LPC collection in the Business Month attributed to Power Charge billed to Bundled Customers (Column 13 value in the Business Month multiplied by the ratio of the Column 3 value two Business Months ago to the Column 6 value two Business Months ago)
15	DWR LPC Collection - Bond	Net DWR LPC collection in the Business Month attributed to Bond Charge billed to all Customer Types (Column 13 multiplied by the ratio of the Column 4 value two Business Months ago to the Column 6 value two Business Months ago)
16	CWR LPC Collection - CRS Power	Net DWR LPC collection in the Business Month attributed to the Power Charge component of the Cost Responsibility Surcharge billed to all Customer Types (Column 13 multiplied by the ratio of the Column 5 value two Business Months ago to the Column 6 value two Business Months ago)

Example:

SDG&E Electric Late Payment Charges
DWR Prorata Share of Derived Revenue

Business Month	DWR Commodity Bill	DWR Bond Charge Bill	DWR CRS Power Charge Bill	Total DWR Bill	Utility Revenue	DWR LPC Share %	Gross DWR LPC Collection	C&I Charge Off %	DWR LPC Charge-Off	DWR LPC Collection Cost	Net DWR LPC Collection	DWR LPC Collection - Commodity	DWR LPC Collection - Bond	DWR LPC Collection - CRS Power	
m	(a)	(b)	(c)	(d)	(e) = (c)+(d)	(f)	(g) _{m-1} = (e) _{m-2} / (f) _{m-2}	(h) _{m-1} = (g) _{m-1} * (a) _{m-1}	(i)	(j) = (i) _{m-1} * (a)	(k)	(l) _{m-1} = (h) _{m-1} - (j) _{m-1}	(m) _{m-1} = (l) _{m-1} * (e) _{m-1} / (e) _{m-1}	(n) _{m-1} = (l) _{m-1} * (e) _{m-1} / (e) _{m-1}	(p) _{m-1} = (l) _{m-1} * (e) _{m-1} / (e) _{m-1}
Jan-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Feb-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Mar-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Apr-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
May-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Jun-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Jul-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Aug-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Sep-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Oct-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Nov-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Dec-03	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Jan-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Feb-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Mar-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Apr-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
May-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Jun-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Jul-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Aug-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Sep-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Oct-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Nov-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Dec-04	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Jan-05	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Feb-05	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Mar-05	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Apr-05	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
May-05	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Jun-05	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx
Jul-05	xx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	xxx,xxx,xxx	xx.xx%	xx,xxx	x.xxx%	xx	xx,xxx	xx,xxx	xx,xxx	x,xxx	x,xxx

Note: the subscripts in the formulas denote month.

1.1. E. Monthly DWR Charge-Off and Recovery Report

(i) Naming Convention - The transmittal of this report should use the following naming convention.

- The format of the filename: <utility-name> - Monthly DWR Charge-Off and Recovery Report yyyyymm.vx.xls

Section 1. Example: SDG&E – Monthly DWR Charge-Off and Recovery Report 200704v1.xls

- The subject line of e-mail: <utility-name> - Monthly DWR Charge-Off and Recovery Report for yyyyymm

Section 1. Example: SDG&E – Monthly DWR Charge-Off and Recovery Report for 200704

(ii) Required Information and Timeline - The Monthly DWR Charge-Off and Recovery Report will be provided to DWR on the 7th Utility Business Day after the end of a month of the term. The table below lists the data items that will be required for the Monthly DWR Charge-Off and Recovery Report.

Item #	Item	Description
1	Process Date	Date the report is created
2	Report Run Date	Date the report is printed
3	DWR Charge Off Information - Residential	Bad debt charge-off for DWR Power Charge to Bundled Customer, DWR Bond Charge or DWR CRS Power Charge on residential customers
4	DWR Charge Off Information - Commercial & Industrial	Bad debt charge-off for DWR Power Charge to Bundled Customers, DWR Bond Charge or DWR CRS Power Charge on commercial and industrial customers
5	DWR Charge Off Information - Total Charge Off	Sum of Items 3 and 4
6	Recovery Through Agency - Residential Bad Debt	Amount of bad debt recovered from residential customers by collection agencies for DWR Power Charge to Bundled Customer, DWR Bond Charge or DWR CRS Power Charge
7	Recovery Through Agency - Commercial & Industrial Bad Debt	Amount of bad debt recovered from commercial and industrial customers by collection agencies for DWR Power Charge to Bundled Customer, DWR Bond Charge or DWR CRS Power Charge
8	Total Bad Debt Recovery Thru Agency	Sum of Items 6 and 7
9	Recovery Non-Agency - Residential Bad Debt	Amount of bad debt recovered from residential customers by SDG&E for DWR Power Charge to Bundled Customer, DWR Bond Charge or DWR CRS Power Charge
10	Recovery Non-Agency - Commercial & Industrial Bad Debt	Amount of bad debt recovered from commercial and industrial customers by SDG&E for DWR Power Charge to Bundled Customer, DWR Bond Charge or DWR CRS Power Charge
11	Total Bad Debt Recovery Non-Agency	Sum of Items 9 and 10
12	DWR Total Recovery on Charged Off Accounts	Sum of Items 8 and 11
13	DWR Total Recovery on Final Accounts Through Agency	Amount of all outstanding balances of final accounts recovered by collection agencies for DWR Power Charge to Bundled Customer, DWR Bond Charge or DWR CRS Power Charge
14	DWR Recovery by Collection Agency - Charge Off Accounts	Item 8
15	DWR Recovery by Collection Agency - Final Accounts	Item 13
16	DWR Recovery by Collection Agency - Total to Base Collection Agency Fees on	Sum of Items 14 and 15

Example:

SAN DIEGO GAS & ELECTRIC COMPANY MONTHLY DWR CHARGE OFF/RECOVERY REPORT			
	Process Date	8/1/2005	
	Report Run Date	8/1/2005	
DWR CHARGE OFF INFORMATION:	DWR COMMODITY	DWR BOND	DWR CRS Power
RESIDENTIAL:	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
COMMERCIAL & INDUSTRIAL	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
TOTAL CHARGE OFF:	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
DWR RECOVERIES ON CHARGED OFF ACCOUNTS			
RECOVERY THROUGH AGENCY			
RESIDENTIAL BAD DEBT:	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
COMMERCIAL & INDUSTRIAL BAD DEBT	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
TOTAL BAD DEBT RECOVERY THRU AGENCY	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
RECOVERY NON-AGENCY			
RESIDENTIAL BAD DEBT:	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
COMMERCIAL & INDUSTRIAL BAD DEBT:	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
TOTAL BAD DEBT RECOVERY NON-AGENCY	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
DWR TOTAL RECOVERY ON CHARGED OFF ACCOUNTS	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
DWR TOTAL RECOVERY ON FINAL ACCOUNTS THROUGH AGENCY	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
DWR RECOVERY BY COLLECTION AGENCY			
CHARGE OFF ACCOUNTS:	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
FINAL ACCOUNTS:	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX
TOTAL TO BASE COLLECTION AGENCY FEES ON:	\$XX,XXX.XX	\$X,XXX.XX	\$X.XX

Section 2. Surplus Energy Sales Reports

1.1.

1.2. A. Surplus Energy Sales Payment Report

(i) **Delivery Mechanism and Naming Convention** - This report should be sent by e-mail to the e-mail address "fmr@water.ca.gov" (or by such secure electronic means as reasonably determined appropriate by SDG&E) with the following filename and subject line.

- The format of the filename: <utility name> - SS Payment Report yyyyymm v#.xls

Section 1. Example: SDG&E – SS Payment Report 200507 v1.xls

- The subject line of e-mail: <utility name> - Surplus Energy Sales Payment Report for yyyyymm

Section 1. Example: SDG&E - Surplus Energy Sales Payment Report for 200507

Modifications to a submitted report should be accomplished by resending all the data including the necessary modifications and renaming the report with the subsequent version number.

(ii) **Required Information and Timeline** - The Surplus Energy Sales Payment Report is to be submitted to DWR monthly on the day SDG&E remits to DWR the Preliminary Surplus Energy Sales Remittance Amount and the Delivery Month Surplus Energy Sales True-Up Amount. The report should be consistent in form and substance to the example screenshot below.

1.1. Example:

**San Diego Gas & Electric Company
Surplus Energy Sales Payment Report**

July 21, 2005 Payment Date

DWR Account Reference: 8021360006

Description	Delivery Month	Credit*	Debit†	Net Payment	Note
-------------	----------------	---------	--------	-------------	------

Preliminary Payment	June-05	\$x,xxx,xxx.xx	\$x,xxx,xxx.xx	\$x,xxx,xxx.xx
True-Up Payment	April-05	\$x,xxx,xxx.xx	\$x,xxx,xxx.xx	\$x,xxx,xxx.xx
Total				\$x,xxx,xxx.xx

* Surplus Energy Sales payment amount before being netted with "Debit"
† Surplus Energy Sales payment reduction for amount owned by DWR to SDG&E.

(iii) **Wiring or ACH Transfer Information** - The fund identification information to accompany the Electronic Transfer of Funds should follow similar format to the information of the Surplus Energy Sales Payment Report. It should appear on the wire or ACH transmittal as follows.

<Utility Name> <DWR Account Reference> Surplus Energy Sales <Payment Date yyyyymmdd>
Example: SDG&E 8021360006 DWR Surplus Energy Sales 20050720

The electronic transfer of funds for Surplus Energy Sales payment shall be completed by 12:00 noon, Pacific Prevailing Time.

1.2. B. Preliminary Surplus Energy Sales Calculation Summary Report

(i) Naming Convention - The transmittal of this report should use the following naming convention.

- The format of the filename: <utility name> - Preliminary SS Calculation Summary yyyyymm v#.xls

Section 1. Example: SDG&E – Preliminary SS Calculation Summary 200507 v1.xls

- The subject line of e-mail: <utility name> - Preliminary Surplus Energy Sales Calculation Summary Report for yyyyymm

Section 1. Example: SDG&E - Preliminary Surplus Energy Sales Calculation Summary Report for 200507

Modifications to a submitted report should be accomplished by resending all the data including the necessary modifications and renaming the report with the subsequent version number.

(ii) Required Information and Timeline - The Preliminary Surplus Energy Sales Calculation Summary Report is to be submitted to DWR by the Monthly Settlement Date of the delivery month. The report should be consistent in form and substance to the example screenshot below.

Section 2. Example:

San Diego Gas & Electric Company DWR Surplus Sales Calculation Summary Preliminary mmm-yyyy		
Summary Data		
	MWH	Amount
2.1. Total Forward Surplus Sales	xxx,xxx	\$xxx,xxx.xx
DWR Share of Forward Surplus Sales	xxx,xxx	\$xxx,xxx.xx
SDG&E Share of Forward Surplus Sales	xxx,xxx	\$xxx,xxx.xx
Costs Associated with Surplus Sales		\$xxx,xxx.xx
DWR Share of Costs		\$xxx,xxx.xx
DWR Share of Surplus Sales Less Costs		\$xxx,xxx.xx
Preliminary Forward Surplus Sales Payment		\$xxx,xxx.xx

2.2.
2.3.
2.4.

C. Final Surplus Energy Sales Calculation Summary Report

2.5. (i) Naming Convention - The transmittal of this report should use the following naming convention.

- The format of the filename: <utility name> - Final SS Calculation Summary yyyyymm v#.xls

Section 1. Example: SDG&E – Final SS Calculation Summary 200507 v1.xls

- The subject line of e-mail: <utility name> - Final Surplus Energy Sales Calculation Summary Report for yyyyymm

Section 1. Example: SDG&E - Final Surplus Energy Sales Calculation Summary Report for 200507

Modifications to a submitted report should be accomplished by resending all the data including the necessary modifications and renaming the report with the subsequent version number.

- ii) Required Information and Timeline - The Final Surplus Energy Sales Calculation Summary Report is to be submitted to DWR monthly by the Final Monthly Settlement Date of the delivery month. The report should be consistent in form and substance to the example screenshot below.

Section 2. Example:

San Diego Gas & Electric Company DWR Surplus Sales Calculation Summary Final mmm-yyyy		
Summary Data		
	MWH	Amount
Total Forward Surplus Sales	xxx,xxx	\$xxx,xxx.xx
Total Real Time Surplus Sales	xxx,xxx	\$xxx,xxx.xx
Total Surplus Sales	xxx,xxx	\$xxx,xxx.xx
DWR Share of Forward Surplus Sales	xxx,xxx	\$xxx,xxx.xx
DWR Share of Real Time Surplus Sales	xxx,xxx	\$xxx,xxx.xx
DWR Share of Surplus Sales	xxx,xxx	\$xxx,xxx.xx
SDG&E Share of Forward Surplus Sales	xxx,xxx	\$xxx,xxx.xx
SDG&E Share of Real Time Surplus Sales	xxx,xxx	\$xxx,xxx.xx
SDG&E Share of Surplus Sales	xxx,xxx	\$xxx,xxx.xx
Costs Associated with Surplus Sales		\$xxx,xxx.xx
DWR Share of Costs		\$xxx,xxx.xx
DWR Share of Surplus Sales Less Costs		\$xxx,xxx.xx
Preliminary Forward Surplus Sales Payment		\$xxx,xxx.xx
Surplus Energy Sales True-Up Amount for mm-yyyy		\$xxx,xxx.xx

2.2. D. Real Time Surplus Energy Sales Calculation Supporting Workbook
2.3. (i) Naming Convention - The transmittal of this report should use the following naming convention.

- The format of the filename: <utility name> - RT SS Calculation Supporting Workbook yyyyymm v#.xls

Section 1. Example: SDG&E – RT SS Calculation Supporting Workbook 200507 v1.xls

- The subject line of e-mail: <utility name> - RT SS Calculation Supporting Workbook for yyyyymm

Section 1. Example: SDG&E - RT SS Calculation Supporting Workbook for 200507

Modifications to a submitted report should be accomplished by resending all the data including the necessary modifications and renaming the report with the subsequent version number.

- ii) Required Information and Timeline - The Real Time Surplus Energy Sales Calculation Supporting Workbook is to be submitted to DWR by Final Monthly Settlement Date of the delivery month. The report should be consistent in form and substance to the example screenshot below. The 25th hour in the example below is intended for the Pacific Daylight Saving Time to Pacific Standard Time switching date in the fall and should be left blank on any other day.

Example:

San Diego Gas & Electric Company
DWR Surplus Sales Calculation
 Final mmm-yyyy

Total		xxx,xxx	xxx,xxx	xxx,xxx	xxx,xxx	xxx,xxx	xxx,xxx	
		MWh						
Date	Hour	DWR Contract Mwh	Total Retail Load Mwh	Total Forward Surplus Sales Mwh	Total Real Time Surplus Sales Mwh	DWR Hourly Percentage %	DWR Forward Surplus Sales Mwh	DWR Real Time Surplus Sales Mwh
		A	B	C	D	E=A/(B+C+D)	F=C*E	G=D*E
xx/xx/xxxx	1	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	2	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	3	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	4	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	5	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	6	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	7	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	8	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	9	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	10	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	11	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	12	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	13	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	14	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	15	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	16	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	17	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	18	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	19	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	20	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	21	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	22	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	23	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	24	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx
xx/xx/xxxx	25	x,xxx	x,xxx	x,xxx	xxx	.xxxx	xxx	xxx

ATTACHMENT D

[Reserved]

ATTACHMENT E

SAN DIEGO GAS & ELECTRIC COMPANY

ADDITIONAL PROVISIONS

1. The Restated Letter Agreement between San Diego Gas & Electric Company (SDG&E) and the California Department of Water Resources (DWR), dated June 18, 2001, as it may be amended or modified from time to time (the "Restated Letter Agreement"). The Restated Letter Agreement provides for continued DWR procurement for SDG&E customers of SDG&E's "full net short" (consisting of substantially all of the power and ancillary services not provided by SDG&E's retained generation) through December 31, 2002. The reference to the Restated Letter Agreement in this Attachment E provides no independent basis for enforcement of the Restated Letter Agreement.
2. Memorandum of Understanding (MOU) with the California Department of Water Resources (DWR), dated June 18, 2001, San Diego Gas & Electric Company (SDG&E) and its parent Company, Sempra Energy. The MOU contemplates the implementation of a series transactions and regulatory settlements and actions to resolve many of the issues affecting SDG&E and its customers arising out of the California energy crisis. The MOU contemplates, among other matters, the sale of SDG&E's transmission system to DWR or another state agency. The MOU also contemplates that DWR's net-short procurement obligations contained in the Restated Letter Agreement are subject to earlier termination upon the satisfaction of regulatory and other conditions intended to assure SDG&E's timely recovery of costs incurred in resuming power procurement for its customers. The reference to the MOU in this Attachment E provides no independent basis for enforcement of the MOU.
3. Letter Agreement between the California Department of Water Resources (DWR) and San Diego Gas & Electric Company (SDG&E). This Letter Agreement provides for the payment of SDG&E's costs to (i) implement and maintain a billing system to remit customer payments to DWR, (ii) implement the 20/20 program, and (iii) implement load curtailment programs under Assembly Bill (AB) IX, related Executive Orders, and California Public Utilities Commission (CPUC) orders and decisions.
4. Notwithstanding (i) the terms, execution or operation of the Servicing Order, (ii) the approval of, any modification to, or any other action taken with respect to or having an effect on the Servicing Order by the Commission or any other Governmental Authority, or (iii) any other action taken by a Governmental Authority, Utility hereby reserves all rights (if any) in any forum to contest, oppose, appeal, comment on, or otherwise seek to revisit, alter, modify or set aside any present or future decisions, orders, opinions, rulings, or actions or omissions to act by the Commission or any other Governmental Authority, whether in draft, interim or final form, arising out of, relating to, or connected with (x) the calculation of DWR Charges or DWR Revenues and the allocation of costs and amounts of electric capacity and output among the customers of electrical corporations, (y) the interpretation and/or legality of Applicable Law or Applicable Orders, or (z) remittance of such calculated amounts by Utility to DWR or its Assign(s) under Applicable Law or Applicable Commission Orders in a manner inconsistent with this Servicing Order or Utility's ability to perform its utility functions.

ATTACHMENT F

SAN DIEGO GAS & ELECTRIC COMPANY

CALCULATION METHODOLOGY FOR REDUCED REMITTANCES

PURSUANT TO 20/20 PROGRAM

A. Reimbursement of 20/20 Rebate Costs

1. DWR agrees that Utility shall recover the amount of customer credits under the 20/20 Program as follows:

a. Under the remittance provision of Attachment B of this Servicing Order, Utility shall reduce any remittances to DWR under the Act or the California Public Utilities Commission (CPUC) Resolution E-3770 by the daily amount equal to the total of such customer credits on the following Business Day after the presentation of credits on customer bill.

b. If the amount that Utility is entitled to offset on any day exceeds the funds otherwise due to DWR, the balance will be carried over to the next day. If it appears that the amount Utility is entitled to offset will exceed the funds due to DWR for more than 3 consecutive days, then Utility will invoice DWR with an estimate of the amount due to Utility. DWR will pay such invoice within 1 Business Day of receipt. For purposes of this Attachment F, the credits or payments shall refer to the 20 percent reduction applied to customers' total net electric charges (including applicable rate surcharges), and shall include credits or payments made to resolve Customer disputes or reflect corrected bills following the end of the program.

B. Customer credits under the 20/20 Program will be applied to Customer accounts as follows:

Customer credits under the 20/20/ Program will be applied to customer accounts at time of billing and allocated to DWR according to the same payment posting priority set forth in Attachment B, Section G. In those instances in which the credit exceeds the outstanding charges, the excess credit will remain on the account and be applied to future charges in the same manner.

C. Reimbursement of 20/20 Program Implementation Costs

DWR agrees to pay to Utility an implementation fee and recurring fees in order to cover Utility's reasonable development and on-going costs for the procedures, systems and mechanisms that are necessary to implement and support the 20/20 Program. Utility shall invoice DWR for payment of the implementation fee and recurring fees with reasonable supporting documentation in accordance with Section 7.2 of the Servicing Order. Final invoice to be submitted to DWR no later than February 28, 2003.

D. Estimated Costs:

1. The intent is to reimburse the actual, incremental costs incurred by SDG&E. SDG&E will exercise reasonable commercial efforts in managing their operations to minimize costs and keep within the budgeted costs shown in the table below.

2. SDG&E shall invoice DWR after a 20/20 Program implementation activity described below has been completed and will undertake reasonable commercial efforts to track and keep costs within the estimated costs shown in this Attachment F.

3. SDG&E will invoice DWR based on actual costs and provide DWR with an invoice itemizing and documenting such costs.

4. With the exception of Customer Service Representative calls, SDG&E is unable to track, itemize and document costs for Customer Bill Inquiries without undertaking extensive system programming and hardware upgrades. Specifically, these types of inquiries include field calls, meter re-reads, re-bills and meter tests. Based on 2001 20/20 Program activity levels, SDG&E does not anticipate any incremental increase in costs for these activities. Accordingly, SDG&E has not included cost estimates for these types of Customer Bill Inquiries in the table below. However, DWR agrees that if SDG&E should experience a significant increase in activity levels for the types of customer bill inquiries described above, SDG&E will notify DWR and provide to DWR documentation reasonably necessary to establish such activity levels. SDG&E and DWR shall negotiate a mutually acceptable adjustment based on an estimate of reasonable costs for the applicable increased Customer Bill Inquiries.

Estimated DWR / 20/20 Rebate Program Budgeted Costs

2002

<u>Expense Items</u>	<u>Quantity or Unit Costs</u>	
1 Systems Programming	One Time Fee	\$16,100 - \$18,500
2 Customer Communications (FAQ Sheets, Bill Inserts, Mailing Costs & Other Communications)	One Time Fee	\$484,750 - \$686,300
3 Additional Postage for Bill Insert	One Time Fee	\$280,000 - \$300,000
4 Customer Service Representative Calls & Training	Ongoing	\$35,600 - \$47,750

5 Advertising Campaign	Ongoing	See Footnote below.
6 Total Estimated Admin. Costs	Ongoing	\$816,450 - \$1,052,550 (does not include advertising costs)

Footnote: SDG&E will receive a percentage of the presently estimated \$3 million cost to implement a statewide advertising campaign which is contemplated by the CPUC and the Governor. This cost will be proportionately allocated among the three utilities.

E. 20/20 Program Reporting

1. **Daily** - To the extent reasonably possible, each Business Day SDG&E shall provide DWR with a report showing the aggregated dollar amount and number of 20/20 Program credits applied to Customer accounts.

2. **Monthly** - To the extent reasonably possible, SDG&E shall provide DWR with monthly reports showing the monthly total number of customer accounts by rate schedule and the corresponding 20/20 Program credit amount and energy use statistics as identified in the sample monthly report below. Monthly reports will be completed within 10 Business Days after the first of each month.

3. **Program Summary** - To the extent that SDG&E completes any additional analysis of the results of the 20/20 Program, SDG&E will provide to DWR such analysis. Any additional findings, including "lessons learned" and recommendations for future similar programs, will also be provided to DWR.

ATTACHMENT G

SAN DIEGO GAS & ELECTRIC COMPANY

FEE SCHEDULE

A. DWR Billing Agent Cost Estimates:

The following chart provides an estimate of SDG&E’s implementation and administrative costs (“Billing Service Implementation Costs”) associated with providing Billing Services to DWR pursuant to the Servicing Order.

1. SDG&E shall invoice DWR in accordance with Section 7.2 of the Servicing Order after a Billing Service activity has been completed and will exercise commercially reasonable efforts to track and keep costs within the estimated Billing Service Implementation Costs shown in this Attachment G.

2. For the majority of SDG&E’s Billing Service Implementation Costs, SDG&E will invoice DWR based on actual costs and provide DWR with an invoice itemizing and documenting such costs.

3. In certain circumstances SDG&E is unable to track, itemize and document Billing Services Implementation Costs without undertaking extensive system programming and hardware upgrades. Accordingly, DWR agrees that in these circumstances SDG&E shall utilize the SDG&E Estimated Billing Service Implementation Costs shown in this Attachment G for SDG&E’s invoicing purposes without undertaking a true-up to actual costs. However, DWR reserves the right to dispute all or any portion of such invoice in which event Section 7.1 shall govern the resolution of any such dispute. Provided, however, DWR and SDG&E shall undertake in good faith efforts to resolve any dispute prior to resorting to such dispute resolution process.

B. Billing Service Implementation Costs

Additional Charges reflect SDG&E’s estimated costs for Billing Services, which the Parties agree may be used when SDG&E would incur increased costs as a result of performing DWR Billing Services pursuant to the Servicing Order. The items listed are intended to facilitate contract management and are not intended to reflect an exhaustive and inclusive list of Additional Charges that may arise.

Description	Set-Up Cost Estimate	Additional Charges	Comments
Energy Data Management	\$32,000		
DWR Remittance & Reporting			
Customer Billing/Payment Processing	300,000		
Training	12,000		
Fact Sheet	11,000		
Bill Insert	5,500		Shared cost due to multiple communication - DWR @ 20%
Brochure Revision	2,500		Shared cost due to multiple communication - DWR @ 20%
Website Changes	3,500		
Direct Mail		\$700,000	Each mailing to all customers
DWR Revenue Req. Ntc	500,000		May/June direct mailing to large & small customers
Bill Insert		26,500	One bill insert to all customers
Customer Contacts		6.25	Per contact
Customer Contract Training		40.00	Per hour per employee
Rebilling - Load Profile		3.00	Per month, per meter
Rebilling - IDR Metering		49.00	Per month, per meter
Increased Postage		Current Postage Rate	Per piece mailed. Postage rate consistent with rate used to mail SDG&E customer bills.
Actual Invoice Cost of Annual Report (Section		TBD	Cost dependent on audit requirements

8.4)
Total - 2003 SO **\$866,500**

2006 SO Requirements

Enhanced Reporting \$10,000
Total - 2006 SO **\$10,000**

C. **DWR Bond Charge Implementation Cost Estimates:**

The following chart provides an estimate for SDG&E's implementation costs associated with the November 15, 2002 implementation of the DWR Bond Charge. SDG&E will provide DWR with additional estimates in the future for the implementation costs associated with the second phase of DWR Bond Charge implementation for issues such as Direct Access and Departed Load Customers.

D. **Reimbursement of DWR Bond Charge Costs:**

1. DWR will pay SDG&E an implementation fee and recurring fees in order to cover SDG&E's reasonable development and on-going costs for the procedures, systems and mechanisms that are necessary to implement the DWR Bond Charge on November 15, 2002. SDG&E shall invoice DWR for payment of the implementation fee and recurring fees with reasonable supporting documentation in accordance with Section 7.2 of the Servicing Order.

2. The intent is to reimburse the actual, incremental costs incurred by SDG&E. SDG&E will exercise reasonable commercial efforts in managing their operations to minimize costs and keep within the budgeted costs shown in the table below.

3. SDG&E shall invoice DWR after a DWR Bond Charge implementation activity described below has been completed and will undertake reasonable commercial efforts to track and keep costs within the estimated costs shown in Section C of this Attachment G.

4. SDG&E will invoice DWR based on actual costs and provide DWR with an invoice itemizing and documenting such costs.

5. SDG&E is unable to track, itemize and document costs for Customer Bill Inquiries related to the DWR Bond Charge without undertaking extensive system programming and hardware upgrades. At this time, SDG&E does not anticipate any incremental increase in costs for these activities. Accordingly, SDG&E has not included cost estimates for Customer Bill Inquiries in the table below. However, DWR agrees that if SDG&E should experience a significant increase in customer bill inquiries associated with the DWR Bond Charge, SDG&E will notify DWR and provide to DWR documentation reasonably necessary to establish such activity levels. SDG&E and DWR shall negotiate a mutually acceptable adjustment based on an estimate of reasonable costs for the applicable increased Customer Bill Inquiries.

DWR Bond Charge Implementation Costs:

Item Number	Expense Items	Quantity or Unit Costs	2002
1	Systems Programming	One Time Fee	\$110,000
2	Additional Postage for Bill Messages	One-Time	\$ 20,000
4	Customer Service Representative Training	One-Time	\$ 10,000
Total Estimated Admin Costs			\$140,000

E. **Summary of Estimated Costs from the 2003 Servicing Order and Actual Payments to SDG&E for Billing Services:**

Charges	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Initial Set-up	\$866,500	\$132,000	\$132,000	\$132,000	\$132,000
Bond Charge Set-up	--	140,000	--	--	--
\$1 Billion Refund Set-up	--	--	168,000	--	--
LPP System Correction	--	--	--	--	500,000
Total Estimated Amount	\$866,500	\$272,000	\$300,000	\$132,000	\$632,000
Total Actual Payment	\$732,003	\$0	\$77,200	\$69,545	\$578,348

ATTACHMENT H

[Provisions of Attachment H have been incorporated in
Appendix A-2 of Attachment B of this 2006 Servicing Order.]

**SEMPRA ENERGY
SEVERANCE PAY AGREEMENT**

THIS AGREEMENT (this “Agreement”), dated as of _____, ____ (the “Effective Date”), is made by and between SEMPra ENERGY, a California corporation (“Sempra Energy”), and _____ (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 _____; 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:

(e) 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.

(f) 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 tax gross up 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) ___% 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 tax gross up 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 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 1.409 A-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 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; Tax Gross Up. 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 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) ___% 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 (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 tax gross up 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) ___% 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 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).

(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; Tax Gross Up. 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 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. Limitation 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); < I>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 re cruit 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 a grees 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 one-half (0.5) times the greater of: (X) ____% 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 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 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

[_____]

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 _____, 200__ (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].

SAN ONOFRE UNIT NO. 1 DECOMMISSIONING AGREEMENT

BETWEEN

SOUTHERN CALIFORNIA EDISON COMPANY AND

SAN DIEGO GAS & ELECTRIC COMPANY

TABLE OF CONTENTS

<u>SECTION</u>	<u>TITLE</u>	<u>PAGE</u>
1.	PARTIES	1
2.	RECITALS	1
3.	AGREEMENT	2
4.	DEFINITIONS	2
5.	EFFECTIVE DATE	2
6.	ADMINISTRATION	2
7.	DECOMMISSIONING FUNDING REQUIREMENTS	6
7.1	Decommissioning Cost Estimate	6
7.2	Annually Adjusted Decommissioning Cost Estimate	7
7.3	Annual Decommissioning Funding Status Reports	7
7.4	Maintenance of Trust Funds For Decommissioning Costs	8
7.5	Underfunding	8
7.6	Underfunding Defaults	9
7.7	Renegotiation	10

TABLE OF CONTENTS
(CONT'D)

<u>SECTION</u>	<u>TITLE</u>	<u>PAGE</u>
8.	RESPONSIBILITIES FOR DECOMMISSIONING WORK	11
8.1	Decommissioning Executive Board	11
8.2	The Decommissioning Project Team	15
8.3	The Decommissioning Agent	18
8.4	Each Party	27
9.	LIABILITY	29
10.	DEFAULTS	31
11.	ARBITRATION	35
12.	ACTIONS PENDING RESOLUTION OF DISPUTES	37
13.	AGREEMENT TERMINATION DATE	38
14.	MISCELLANEOUS PROVISIONS	40
15.	UNCONTROLLABLE FORCES	41
16.	RELATIONSHIP OF PARTIES	41
17.	NO THIRD PARTY BENEFICIARIES	42
18.	ASSIGNMENT	42
19.	NOTICES	43
20.	GOVERNING LAW	43
21.	CAPTIONS AND HEADINGS	44

TABLE OF CONTENTS
(CONT'D)

<u>SECTION</u>	<u>TITLE</u>	<u>PAGE</u>
22.	NON-WAIVER	44
23.	EXECUTION OF COUNTERPARTS	44
24.	INTEGRATION CLAUSE	44
25.	SEVERABILITY CLAUSE	45
26.	SIGNATURE CLAUSE	45
EXHIBITS		
A	DEFINED TERMS	A-1
B	A&G PROCESS FOR THE SONGS 1 DECOMMISSIONING PROJECT	B-1
C	PROPRIETARY RIGHTS	C-1

SAN ONOFRE UNIT NO. 1 DECOMMISSIONING AGREEMENT

BETWEEN

SOUTHERN CALIFORNIA EDISON COMPANY AND

SAN DIEGO GAS & ELECTRIC COMPANY

1. PARTIES: The parties to this San Onofre Decommissioning Agreement ("Agreement") are: SOUTHERN CALIFORNIA EDISON COMPANY, a California Corporation ("SCE") and SAN DIEGO GAS & ELECTRIC COMPANY, a California Corporation ("SDG&E"). SCE and SDG&E are sometimes referred to individually as "Party" and collectively as "Parties."

2. RECITALS: This Agreement is made with reference to the following facts, among others:

2.1 The Parties entered into the San Onofre Ownership Agreement on October 5, 1967, the San Onofre Operating Agreement on June 1, 1966 and the Amended San Onofre Operating Agreement on October 5, 1967, to provide for tenancy in common ownership, operation and maintenance, capital improvements and other matters relating to San Onofre Nuclear Generating Station (SONGS) Unit 1. Unit 1 was placed in commercial operation on January 1, 1968 and permanently ceased operation on November 30, 1992 pursuant to CPUC Decision 92-08-036 dated August 11, 1992.

2.2 The Parties entered into the Second Amended San Onofre Operating Agreement on February 26, 1987 which provides for, among other things, (i) matters relating to the operation and maintenance of and capital improvements to SONGS Unit 1, SONGS Units 2 and 3, and the SONGS Common Facilities, and (ii) the rights, duties, and obligations of the Parties with respect to Decommissioning of the San Onofre Nuclear Generating Station and the

sharing of costs thereof.

2.3 The Parties now desire to enter into this Decommissioning Agreement, to provide for the rights, duties, and obligations of the Parties, as tenants in common, with respect to Decommissioning Work and sharing of costs thereof for SONGS Unit 1.

3. AGREEMENT: In consideration of the terms and conditions contained in this Agreement, the Parties agree as follows:

4. DEFINITIONS: Unless otherwise defined herein, terms used herein with initial capitalization, whether in the singular or the plural, shall have the meanings as defined in Exhibit A, attached hereto and incorporated herein by this reference.

5. EFFECTIVE DATE: When executed by both Parties this Agreement shall become effective as of the date set forth in Section 26 hereof.

6. ADMINISTRATION:

6.1 As a means of securing effective cooperation and interchange of information and of providing consultation on a prompt and orderly basis between the Parties in connection with various administrative and technical matters which may arise from time to time in connection with the terms and conditions of this Agreement, the Parties hereby establish the following bodies and representatives, which shall have the functions and responsibilities described in Section 8 hereof.

6.1.1 A Decommissioning Executive Board consisting of a management representative of each Party, and an alternate management representative.

6.1.1.1 The chairman of the Decommissioning Executive Board shall be a representative of the Decommissioning Agent. The chairman shall be responsible for calling meetings and establishing agendas,

including meetings and agenda items, respectively, requested by any committee representative.

6.1.1.2 Within thirty (30) days after the execution of this Agreement, each Party shall designate its representative and an alternate to the Decommissioning Executive Board by written notice to the other Party. Each Party shall promptly notify the other Party in writing of any change in its representative or alternate to the Decommissioning Executive Board.

6.1.1.3 The Decommissioning Executive Board shall have the right to establish ad hoc committees when necessary. The duties and responsibilities of any such ad hoc committees shall be set forth in writing and signed by the representatives of the Decommissioning Executive Board.

6.1.2 A Decommissioning Project Team consisting of representatives from each Party.

6.1.2.1 Within thirty (30) days after the execution of this agreement, the Parties shall designate their representatives to the Decommissioning Project Team, including telephone numbers. The Parties will inform each other of any changes in their Decommissioning Project Team representatives within thirty (30) days.

6.1.2.2 A fiscal representative shall be appointed to the Decommissioning Project Team by each Party to serve as a contact on all matters concerning accounting, audits, billing, operation and maintenance expense accounting, SONGS 1 Decommissioning administrative and general ("A&G") expense accounting, and other fiscal matters. The fiscal representatives shall meet separately no less than once each year. The fiscal representative shall review and approve procedures developed by the

Decommissioning Project Team pursuant to Section 8.2.8.

6.1.2.3 Exhibit B contains an acceptable interim set of principles for the allocation methodology and shareable costs included in SONGS 1 Decommissioning A&G expenses. The use of these interim principles does not represent a commitment or understanding by SDG&E that the principles necessarily reflect an amount of A&G expenses properly attributable to Decommissioning Costs, which is equitable to the Parties. These interim principles may be replaced with a mutually acceptable alternate that is more equitable and, if so, SONGS 1 Decommissioning A&G expenses from January 1, 1999 will be retroactively adjusted, if necessary. If these interim principles are not finalized by December 31, 2000, this issue will be referred to the Decommissioning Executive Board for resolution pursuant to Section 8.1.3 and '8.1.4. The fiscal representatives will reevaluate the allocation methodology and sharable costs included in SONGS 1 Decommissioning A&G expenses as outlined in Exhibit B every 3 years or based on changed circumstances that cause the A&G process to no longer be equitable to the Parties. The fiscal representatives evaluation shall include, but not be limited to, a review of: (i) what expenses are equitable to the Parties and properly included as A&G expenses attributable to Decommissioning Costs, including, but not limited to, the accounting for such expenses in conformance with the Uniform System of Accounts; and (ii) validating that total A&G expenses and the allocated share thereof to be paid by each Party under this Agreement were actually incurred. If the fiscal representatives fail to agree on proposed changes, then a report to the Decommissioning Executive Board for resolution should be provided describing in detail an explanation of differing positions, the advantages and disadvantages of each position, and any reasonable compromise of such different

positions. During the resolution process, the prior allocation methodology shall remain in effect.

6.1.2.4 A decommissioning representative shall be appointed to the Decommissioning Project Team by SDG&E to be the primary contact for such Party on all decommissioning matters not delegated to its fiscal representative. One of the purposes of providing the decommissioning representative with access to Unit 1, as provided herein, is to assist SDG&E to keep itself informed as to significant matters affecting decommissioning. Such representative shall have (1) access to Unit 1 at any time to the same extent as the Decommissioning Agent; (2) the right to confer with the representative of the Decommissioning Agent at all reasonable times; (3) access to all files related to decommissioning except for (a) confidential personnel records and (b) files of any officer of the Decommissioning Agent; and the right to receive copies of Unit 1 correspondence to the same extent as the project team members except for correspondence dealing with confidential personnel records; (4) the right to receive timely notice of scheduled meetings between the Decommissioning Agent related to decommissioning, and the right to attend such meetings; (5) a mutually acceptable office space, file space, parking space, and furnishings at SONGS; and (6) access to and use of such computing, duplicating, facsimile, and telephone facilities and clerical support as are routinely provided to representatives of the Decommissioning Agent at SONGS. For purposes of this Section 6.1.2.4(3)(a), information that is not treated as confidential personnel records includes names of employees, work title, work location, and listing per pay period of hours spent on Decommissioning Work.

6.1.2.5 The decommissioning representative may attend and participate in any decommissioning project activities, including but

not limited to, engineering, design review, request for proposal, bid evaluation, pre-construction, construction, environmental, safety, procurement, cost, and scheduling.

6.2 Except as provided for in Sections 10.5 and 18.2, the Decommissioning Agent under this Agreement shall be SCE or its assignee. The Parties hereby appoint the Decommissioning Agent as their agent for the purposes set forth in this Agreement, and the Decommissioning Agent shall undertake as their agent to perform Decommissioning Work and to carry out the duties and responsibilities as (i) set forth in this Agreement, (ii) set forth in the annual Decommissioning Activities Plan, and (iii) as may be delegated to it by the Decommissioning Executive Board pursuant to Section 8.1 hereof.

6.3 If the Decommissioning Project Team fails to agree while performing the functions and duties pursuant to this Agreement, then such disagreement shall be referred to the Decommissioning Executive Board for resolution.

6.4 Neither the Decommissioning Executive Board, Decommissioning Project Team, nor the Decommissioning Agent, shall have authority to amend, modify, or alter any of the provisions of this Agreement.

7. DECOMMISSIONING FUNDING REQUIREMENTS:

7.1 Decommissioning Cost Estimate:

The updated Unit 1 Decommissioning Cost Estimate shall become temporarily effective for interim use on the date it is submitted to the CPUC, and shall become finally effective, including any modifications by the CPUC, on the date it is adopted in a CPUC decision.

7.1.1 The Decommissioning Cost Estimate is intended to be used primarily to establish the level of funding which the Parties are required to provide pursuant to Section 7 hereof and is not intended to create any obligation or

commitment to perform or conduct Decommissioning Work in compliance with such assumptions.

7.1.2 The sole remedy for resolving disputes relating to the Decommissioning Cost Estimates shall be through the dispute resolution process set forth in Sections 8.1.3.1 and 8.1.4 hereof, including arbitration pursuant to Section -11 hereof.

7.2 Annually Adjusted Decommissioning Cost Estimate:

By March 1 of each year, the Decommissioning Agent shall submit to each Party an Annually Adjusted Decommissioning Cost Estimate, consisting of the amount of the triennial Decommissioning Cost Estimate currently effective pursuant to Section 7.1, less the amount expended for Decommissioning Work during the calendar years since that cost estimate became effective, and adjusted for escalation and work scope changes.

7.3 Annual Decommissioning Funding Status Reports:

7.3.1 By March 1 of each year, each Party shall submit to the Decommissioning Agent, the Liquidation Value of its Decommissioning Trust Funds as of December 31 of the previous year.

7.3.2 By March 31 of each year, the Decommissioning Agent shall submit to each Party an Annual Decommissioning Funding Status Report that compares each Party's Annual Trust Fund Liquidation Balance to its respective Decommissioning Cost Share of the Annually Adjusted Decommissioning Cost Estimate.

7.4 Maintenance of Trust Funds For Decommissioning Costs:

7.4.1 Each Party shall maintain in its Decommissioning Trust(s) no less than its Decommissioning Cost Share of the current Annually Adjusted Decommissioning Cost Estimate as defined in Section 7.2 to ensure availability of necessary funds for payment of Decommissioning Costs.

7.4.2 The right of any Party pursuant to this Section 7 to

maintain a minimum of its share of the current Annually Adjusted Decommissioning Cost Estimate in its Decommissioning Trust(s) shall not relieve any Party from any and all obligations to pay its Decommissioning Cost Share of Decommissioning Costs.

7.5 Underfunding:

As long as SDG&E or SCE is a Party to this Agreement, Sections 7.5 through 7.7, inclusive, shall not apply to either SDG&E or SCE. If either Party assigns its Ownership Share of San Onofre Unit 1 pursuant to Section 18 herein, Sections 7.5 through 7.7 shall apply to any third party assignee of SCE or SDG&E's Ownership Share(s).

7.5.1 By March 31 of each year, the Decommissioning

Agent shall notify the Decommissioning Executive Board if either Party's Annual Decommissioning Funding Status Report indicates that the balance in its Decommissioning Trust Funds as of December 31 of the previous year is less than its Decommissioning Cost Share of the current Annually Adjusted Decommissioning Cost Estimate as defined in Section 7.2 hereof. Upon such notification, the Decommissioning Agent's representative on the Decommissioning Executive Board shall declare such Party to be underfunded. Such Party shall notify the Decommissioning Executive Board of adoption of a Cure Plan within ninety (90) days after such declaration.

7.5.2 A Cure Plan is a plan to be proposed by a Party that

has been declared to be underfunded, which commits that Party to a method of depositing in its Decommissioning Trust Fund(s) an amount that brings the cumulative balance in its Decommissioning Trust Fund(s) to at least its Decommissioning Cost Share of the Annually Adjusted Decommissioning Cost Estimate as defined in Section 7.2 hereof that is in effect at the end of the

prescribed time period, within a commercially reasonable period, and of paying its Decommissioning Cost Share of all Decommissioning Costs during the period.

7.5.3 If the Decommissioning Executive Board, without the vote of the underfunded Party, reasonably approves the Cure Plan proposed in Section 7.5.2, the Cure Plan shall become binding upon that Party.

7.5.4 The Cure Plan terminates when a Party's Decommissioning Trust Fund balance is no less than the amount described in Section 7.5.2.

7.6 Underfunding Defaults:

If an underfunded Party fails to deposit an amount that brings the cumulative balance of its Decommissioning Trust Fund(s) to at least its Decommissioning Cost Share of the current Annually Adjusted Decommissioning Cost Estimate within the time period prescribed by the Cure Plan adopted by the Decommissioning Executive Board pursuant to Section 7.5 hereof, or fails to advance funds to the Decommissioning Agent for invoiced Decommissioning Work within twenty-five (25) days of receipt of a statement as provided in Section 8.3.15 herein, that Party shall thereupon be deemed to be in default pursuant to Section 10 of this Agreement without further action of the Decommissioning Executive Board or any Party and irrespective of the pendency of any arbitration proceeding initiated to contest any such underfunding claim.

7.7 Renegotiation:

The Parties agree to renegotiate in good faith the applicable provisions of this Section 7 due to changed circumstances resulting from the following events:

7.7.1 Severe, unforeseen, and uncontrollable stock/bond market fluctuations cause a Party's actual funding balance in its respective

Decommissioning Trust Fund(s) to fall below its Ownership Share of the Annually Adjusted Decommissioning Cost Estimate. That Party shall not be declared underfunded as the result of such event. However, that Party shall advise the other Party that it will cure such underfunding by adoption of a Cure Plan or other arrangements if successfully negotiated with the other Party and approved by the Decommissioning Executive Board. If such underfunding is not rectified by either the adopted Cure Plan or other arrangement as approved by the Decommissioning Executive Board, the underfunded Party shall be deemed to be in default without further action of the Decommissioning Executive Board or any Party and irrespective of the pendency of any arbitration proceeding initiated to control any such underfunding claim. For the purpose of this Section 7.7.1, such a fluctuation shall be deemed to have occurred following a negative event in which actual stock/bond market returns are, in any calendar year, one-and-one-half (1.5) standard deviations below the expected return using the most recent edition of Stocks, Bonds, Bills, and Inflation (SBBI) by Ibbotson and Associates as a source for historical returns and standard deviations. The expected stock and bond returns extracted from SBBI shall be the arithmetic average returns and standard deviations for the period spanning from the year 1926 to the most current year. Expected returns for each Party shall be derived using the expected SBBI returns from the various asset classes in accordance with the percentage of that asset class in the investment policy adopted for that Party's portfolio.

8. RESPONSIBILITIES FOR DECOMMISSIONING WORK: In addition to those duties, responsibilities, and obligations imposed upon the Decommissioning Executive Board, the Decommissioning Project Team, the Decommissioning Agent, and the Parties by other provisions of this Agreement, such bodies shall have the duties, responsibilities, and obligations respectively set forth in

this Section 8 in connection with the performance and completion of Decommissioning Work for

Unit 1 as follows:

8.1 Decommissioning Executive Board:

8.1.1 The Decommissioning Executive Board shall:

8.1.1.1 Exercise general supervision over the

Decommissioning Project Team and the Decommissioning Agent with respect to this Agreement.

8.1.1.2 Delegate to the Decommissioning Project

Team and Decommissioning Agent such authorities, duties, and responsibilities as the Decommissioning Executive Board may determine to be appropriate and consistent with this Agreement. The delegation of such authorities, duties, and responsibilities not described herein shall be in writing.

8.1.1.3 Meet at least twice per year.

8.1.1.4 Require the Decommissioning Agent to

present certain matters to the Decommissioning Executive Board for its approval or action. The chairman of the Decommissioning Executive Board shall use best efforts to provide to the Decommissioning Executive Board by at least fourteen (14) calendar days in advance of any meeting, a proposed agenda for such meeting and two copies of any written material on which action is to be taken at such meeting. If the required agenda and written material are not provided at least fourteen (14) calendar days in advance of the meeting, then any representative shall have the right to request an extension of the meeting date to allow for a full fourteen (14) calendar days review period in advance of the meeting. Upon such request, the chairman shall reschedule the meeting to allow for such review period. Any approval or action by the Decommissioning Executive Board shall (i) require the affirmative vote of each representative, (ii) be reduced to writing, and (iii) be signed by each voting representative. Such

approval shall not be unreasonably withheld and each representative shall receive a copy of all material approved or acted upon by the Decommissioning Executive Board.

8.1.1.5 Review and approve the Annual Decommissioning Funding Status Reports submitted pursuant to Section 7.3 hereof.

8.1.1.6 Approve the Annual Decommissioning Activities Plan for the Decommissioning Work submitted pursuant to Section 8.2.3 hereof, and any revisions thereto by unanimous vote, except as provided in Sections 7.6 and 10 herein. By approving the Annual Decommissioning Activities Plan, each Decommissioning Executive Board member shall represent that its management has approved its respective share of that budget expenditure.

8.1.1.7 Approve any cumulative annual changes forecasted to exceed 10% of the approved annual Decommissioning Work budget prior to expenditure by unanimous vote, except as provided in Sections 7.6 and 10 herein.

8.1.1.8 Approve any settlement of (i) claims exceeding \$250,000 for or against any of the Parties pursuant to Sections 8.3.19 or 8.3.20 hereof, and (ii) threatened or pending actions or claims pertaining to regulatory enforcement or equitable relief regardless of the amount or potential amount of the claim.

8.1.2 To accommodate changed circumstances or matters not contemplated by the Parties at the time of the execution of this Agreement, have the authority to determine other matters consistent with this Agreement which shall be approved or otherwise acted upon by the Decommissioning Executive Board. The Decommissioning Executive Board shall promptly act

upon any proposal made by any Party.

8.1.3 Unless otherwise agreed by the Decommissioning

Executive Board, the Decommissioning Executive Board shall enforce the following procedure with respect to matters to be approved, modified, or acted upon by the Decommissioning Executive Board pursuant to Sections 6.1.2.3, 8.1, 8.4.4, and 10.2.1.

8.1.3.1. If a payment is made under protest, or an amount is disputed as a result of an audit, the matter shall first be submitted to the fiscal representatives to determine if the matter can be resolved within thirty (30) business days from the date of submission. Thereafter, if a resolution of the dispute cannot be reached by the fiscal representatives, the matter shall be submitted to the Decommissioning Executive Board, together with statements of position from each representative.

8.1.3.2. If the Decommissioning Executive Board fails to approve or act upon a payment made under protest or any other matter contemplated by Sections 6.1.2.3, 8.1, 8.4.4. and 10.2.1, and the Decommissioning Executive Board does not agree that the matter should be resubmitted, a dispute shall exist.

8.1.3.3. In the event of a dispute, the chairman of the Decommissioning Executive Board shall designate a Party to prepare a written statement, within fourteen (14) calendar days after such designation unless otherwise agreed, for submittal to the Decommissioning Executive Board setting forth the nature and background of the dispute, the positions of the Parties with respect to the dispute, and proposed solutions, if any. The Party not so designated may within the same period prepare a separate statement for submittal to the Decommissioning Executive Board with the statement prepared by the designated Party. Such statements shall be submitted to each

Decommissioning Executive Board representative by certified mail, return receipt requested, or delivered by hand, or by facsimile confirmed by certified mail.

8.1.4 Upon receipt by all members of the Decommissioning Executive Board of such written statements, the Decommissioning Executive Board shall use its best efforts to resolve such dispute. If the Decommissioning Executive Board is unable to resolve such dispute within thirty (30) calendar days of such receipt, the Decommissioning Agent shall notify, by certified mail, return receipt requested, or by hand delivery, the chief executive officers (or their representatives) of the Parties to such dispute. If the chief executive officers (or their representatives), are unable to resolve such dispute within thirty (30) calendar days after receipt of such notice by such chief executive officers (or their representatives), any involved Party may call for the dispute to be settled by arbitration in accordance with Section 11 hereof.

8.2 The Decommissioning Project Team Shall:

8.2.1 Develop and carry out practices and procedures for conducting the Decommissioning Project.

8.2.2 Work with, provide recommendations to and otherwise assist the Decommissioning Agent to develop accounting, financial, and funding procedures to facilitate compliance of the Decommissioning Agent with Sections 8.3.4 and 8.3.5 hereof, and to perform such other functions and duties as required by this Agreement.

8.2.3 On or before December 10 of each year, develop and submit to the Decommissioning Executive Board an Annual Decommissioning Activities Plan for the next calendar year. These Annual Decommissioning Activities Plans shall be developed to permit compliance with this Agreement,

and applicable federal and state law with respect to the performance of Decommissioning Work, or any elements thereof. In developing such plans, the Decommissioning Project Team shall consult with the Decommissioning Agent as set forth in the applicable sections hereof, and incorporate or otherwise resolve their respective recommendations or comments respecting such plans. Unless the Decommissioning Executive Board shall otherwise direct, such recommended Decommissioning Activities Plan shall include the following elements:

8.2.3.1 With respect to the Decommissioning Work to be undertaken, (i) a milestone schedule for performance and completion of such work; (ii) a budget for the costs for such work categorized by major work activities anticipated to be performed by resources of the Decommissioning Agent and by contractors; (iii) a forecast of cash requirements for such work by month; and (iv) a description of the schedule and cost control systems to be utilized in the management of such work.

8.2.3.2 Identification of regulatory authorizations, permits, licenses, or approvals which must be obtained under applicable laws to perform and complete Decommissioning Work.

8.2.3.3 Such other matters as may be required by this Agreement, other applicable agreements, and applicable federal and state laws with respect to the performance of Decommissioning Work or any elements thereof.

8.2.3.4 Any other elements which the Decommissioning Executive Board may require.

8.2.4 On or before March 1 of each year, prepare and submit to the Parties an Annual Decommissioning Activities Report. This report should compare the Decommissioning Work completed during the past calendar year to

the Decommissioning Work scheduled to be completed during the year and the budgeted cost for work actually completed to the actual cost of work completed. In addition, the report should include a description of any major work scope or major cost element changes (greater than 10%) that occurred during that year.

8.2.5 Promptly notify the Decommissioning Executive Board if the approved annual Decommissioning Work budget will be exceeded by more than ten (10) percent, and the reason(s) for such change(s). The Decommissioning Project Team shall also reconcile the change(s) to total Decommissioning Costs during the following year's budget approval process.

8.2.6 Cooperate to provide preliminary budget information if requested by any party for the next calendar year prior to December 10 of any year, with the best information available at the time of the request.

8.2.7 Prepare recommendations covering matters to be reviewed and acted upon by the Decommissioning Executive Board pursuant to Section 8.1.

8.2.8 Develop procedures in accordance with Section 6.1.2.2 for (i) the accounting of the Decommissioning Costs, (ii) the timing and frequency of the advancement by the Parties of funds to the Decommissioning Agent when required to pay such Decommissioning Costs, (iii) the establishment of accounts for holding such funds as are advanced by the Parties, and (iv) controls for the expenditure of such funds from such accounts and for any short-term investments of any funds in such accounts, all in accordance with Prescribed Accounting Practice.

8.2.9 Provide a report to the SDG&E fiscal representative semi-annually which identifies and describes all major Decommissioning Work currently being considered to be performed during the next six months by

resources of the Decommissioning Agent in lieu of contractor resources. These decisions will be made in accordance with written project policy statements. SDG&E has the option to request a review by the Decommissioning Executive Board, including cost assessment, of any item in the report within 30 days.

8.2.10 Pursuant to Sections 8.3.19 and 8.3.20, review

proposed settlements regarding (i) threatened or pending litigation and/or claims, regardless of the nature of the litigation or claim, which exceed or have the potential to exceed \$250,000, and (ii) threatened or pending actions or claims pertaining to regulatory enforcement or equitable relief regardless of the

amount or potential amount of the claim. Copies of all claims, complaints, and settlement proposals shall be provided to the Decommissioning Executive Board members and a meeting of the Decommissioning Executive Board shall promptly be called to discuss such matters at the request of any member.

8.2.11 Perform such other functions and duties in connection

with the Decommissioning Work as may be delegated the Decommissioning Executive Board.

8.3 The Decommissioning Agent Shall:

8.3.1 Provide the Parties with all written statistical and

administrative reports, accounting records, written budgets, pleadings, internal or third party audit reports, information and other records relating to Decommissioning Work and Decommissioning Costs which are necessary or useful in the performance of their respective responsibilities under this Agreement as requested by any representative thereof.

8.3.2 Maintain all records and documents required by the

NRC, any other regulatory authority, or other applicable federal or state law in the performance of Decommissioning Work.

8.3.3 Provide triennial updates to the Decommissioning

Cost Estimate, as defined in Section 7.1 hereof, in conjunction with the Nuclear

Decommissioning Cost Triennial Proceedings (NDCTP) or successor CPUC

proceedings, to account for the remaining Decommissioning Cost requirements.

The updated Decommissioning Cost Estimate shall become temporarily effective for interim use

on the day after it is submitted to the CPUC, and shall become finally effective, including any

modifications by the CPUC, on the date it is

adopted by the CPUC.

8.3.3.1 As soon as practicable, but no later than thirty (30) days after the effective date of each CPUC decision on the NDCTP, send a revised copy of the Decommissioning Cost Estimate to each Party.

8.3.3.2 Assist in developing the level of required funding for each Party unless otherwise directed by the Decommissioning Executive Board.

8.3.4 By March 1 of each year, submit to each Party an Annually Adjusted Decommissioning Cost Estimate pursuant to Section 7.2 hereof, consisting of the amount of the most recent triennial Decommissioning Cost Estimate, less the amount expended for Decommissioning Work during the calendar year(s) after that cost estimate was approved, and adjusted for projected work scope changes and escalation.

8.3.5 By March 31 of each year, submit to each Party an Annual Decommissioning Funding Status Report pursuant to Section 7.3 hereof that compares each Party's Annual Trust Fund Liquidation, Balance to its respective Decommissioning Cost Share of the Annually Adjusted Decommissioning Cost Estimate pursuant to Section 7.2, and such other information as the Decommissioning Executive Board may request.

8.3.6 Furnish from its own resources or contract for and obtain from any other sources, including either Party, the services and studies

necessary for performance of Decommissioning Work. Either Party may reasonably recommend that a contractor, to perform such services or studies, be added to the Decommissioning Agent's qualified bidders list to provide such contractor the opportunity to bid on and be considered for such service or study, and the Decommissioning Agent shall not, subject to such contractor being qualified by the Decommissioning Agent in accordance with the Decommissioning Agent's procurement policies, unreasonably deny addition of such contractor to its qualified bidders list.

8.3.6.1 The Decommissioning Agent shall not reassign its employees to activities other than Decommissioning Work if such reassignments would materially impair its ability to perform such work. The Decommissioning Agent shall notify all Parties in the event more than five of its employees permanently assigned to Decommissioning Work are reassigned in any calendar quarter.

8.3.7 Negotiate, execute, administer, perform, and enforce contracts, including warranties and other remedies provided therein, in the name of the Decommissioning Agent, acting as agent for all of the Parties, for Decommissioning Work, subject to the Decommissioning Agent's duty to notify the Parties concerning legal claims as set forth in Section 8.3.21 hereof.

8.3.8 Keep the Parties fully and promptly informed of any known default under this Agreement and submit to the Parties any recommendations for amendments of this Agreement.

8.3.9 Carry out and follow the practices, procedures, and directions of the Decommissioning Executive Board or the Decommissioning Project Team pursuant to Section 8 hereof.

8.3.10 Sell, transfer and convey, or otherwise dispose of, for

and on behalf of all Parties, on commercially reasonable terms, conditions, and prices, to any entity, including without limitation the Decommissioning Agent or any Party, Unit 1 property, including any and all equipment, material, and documents acquired or developed for use in the performance of Decommissioning Work, to the extent required or contemplated by and in a manner that complies with the Annual Decommissioning Activities Plans or as otherwise directed by the Decommissioning Executive Board; provided that prior to the effective date of any such sale, or transfer and conveyance, the Decommissioning Agent shall have determined that such equipment or material is no longer used or useful for the operation and maintenance of Unit 1 or necessary to perform any part of Decommissioning Work. Such property shall be sold, transferred and conveyed, or otherwise disposed of only on an "as is" basis without any representation or warranty as to quality, condition or fitness for any purpose unless the Decommissioning Executive Board shall otherwise authorize and direct prior to such sale. Any bidding Party shall be notified of the sale price paid, if requested.

The net proceeds, if any, received from any such sale, transfer, conveyance or other disposal (after deduction of all costs associated with such sale, transfer and conveyance, or other disposal, including without limitation the costs of removal, preparation and delivery of such equipment and material for sale, transfer and conveyance, or other disposal) shall be allocated to the Parties in proportion to their respective Decommissioning Cost Share and such allocation shall be credited to SONGS 1 Decommissioning to offset Decommissioning Costs.

8.3.10.1 The Parties' rights to proprietary rights used or developed by contractors or subcontractors in the performance of

Decommissioning Work are specified in Exhibit C.

8.3.11 Purchase, rent, or otherwise procure in accordance with the Decommissioning Agent's procurement policies and procedures outlined in the Annual Decommissioning Activities Plan the equipment, apparatus, machinery, tools, materials and supplies necessary for the performance of Decommissioning Work. Title to all equipment, apparatus, machinery, tools, materials, and supplies purchased for the performance of Decommissioning Work shall vest on delivery in the Parties as tenants in common with undivided interests in accordance with their respective Decommissioning Cost Shares.

8.3.12 Comply with, (i) any and all laws applicable to the performance of Decommissioning Work including without limitation all applicable laws, rules, and regulations relating to the public health and safety, industrial safety, protection of the environment, workers' compensation laws, and nondiscriminatory employment practices, and (ii) the terms and conditions of any applicable agreements, permits, or licenses relating to Unit 1.

8.3.13 Receive, deposit, invest, and expend the funds advanced to the Decommissioning Agent in accordance with the policies, procedures and practices established by the Decommissioning Project Team pursuant to Section 8.2.8 hereof and the Master Trust Agreement.

8.3.14 Maintain records of monies received and expended, obligations incurred, credits accrued in the conduct of Decommissioning Work, and of contracts entered into in the performance of such Decommissioning Work as may be necessary or useful in carrying out this Agreement or required to permit an audit of such Decommissioning Work, and make such records available for inspection by any Party, the Decommissioning Project Team, the NRC, and any other regulatory authority having jurisdiction with respect to the performance of Decommissioning Work.

8.3.15. Invoice the other Party to this Agreement during the second half of each calendar month for expected Decommissioning Costs to be incurred in accordance with the procedures and practices established pursuant to Section 8.2.8, and provide an actual account of the previous month. Each invoice shall be supportable by the appropriate documents for verification of the invoice charges including, but not limited to, purchase order details, vendor progress reports, contractor invoices, and Decommissioning Agent man-hour listing. These documents shall be available for review in the Decommissioning Project Team office.

8.3.16 Suffer no liens to remain in effect unsatisfied against Unit 1 (other than the liens permitted under the San Onofre Agreements, liens for taxes and assessments not yet delinquent, liens for labor and material not yet perfected or undetermined charges or liens incidental to the performance of Decommissioning Work); provided that the Decommissioning Agent shall not be required to pay or discharge any such lien as long as the Decommissioning Agent in good faith shall be contesting the same, which contest shall operate during the pendency thereof to prevent the collection or enforcement of such lien so contested.

8.3.17 Unless otherwise specified by the Decommissioning Executive Board, procure and maintain in force, insurance against such risks, hazards, and perils of the Decommissioning Work in such amounts and with such deductibles as may be required by (i) applicable laws, or (ii) the Annual Decommissioning Activities Plan.

8.3.18 Assist any insurer in the investigation, adjustment and settlement of any loss or claim covered by insurance against such risks, hazards, and perils of the Decommissioning Work.

8.3.19 Present, prosecute, and settle claims against insurers

and indemnitors providing insurance against such risks, hazards, and perils of the Decommissioning Work or indemnities with respect to any loss of or damage to any property at the San Onofre Nuclear Generating Station or to any liability of any Party to third parties covered by any indemnity agreement. To the extent that any such loss, damage, or liability is not covered by insurance or by any indemnity agreement, present, prosecute, and settle claims therefor against any parties who may be liable therefore. In the event the cost of repair, replacement, or correction of such loss or damage arising out of a single incident or event exceeds \$250,000, or with respect to threatened or pending actions or claims pertaining to regulatory enforcement or equitable relief regardless of the amount or potential amount of the claim, the Decommissioning Agent shall use its best efforts to provide copies of all such claims, complaints, and settlement proposals to SDG&E's Designated SONGS 1 Counsel within three (3) working days of the date of receipt. The Decommissioning Agent shall not make any settlement of any claims for the cost of repair, replacement, or correction of such loss or damage arising out of a single incident or event exceeding \$250,000, or with respect to threatened or pending actions or claims pertaining to regulatory enforcement or equitable relief regardless of the amount or potential amount of the claim, without review by the Decommissioning Project Team and the consent and approval of the Decommissioning Executive Board.

8.3.20 Subject to the provisions of Section 10 hereof and the Annual Decommissioning Activities Plan(s), or as otherwise directed by the Decommissioning Executive Board or as hereinafter provided in this Section 8.3.20, investigate, adjust, defend, and settle claims against any Party or both Parties or the Decommissioning Agent arising out of or attributable to the past or future performance or nonperformance of the obligations and duties of any Party or the Decommissioning Agent related to Decommissioning Work

under or pursuant to this Agreement, including, but not limited to, any claim resulting from death or injury to persons or damage to property, when said claims are not covered by valid and collectible insurance carried by any Party, and whenever and to the extent reasonable, present and prosecute claims against any third party, including insurers, for any costs, losses, and damages incurred in connection with said claims. The Decommissioning Agent shall use its best efforts to provide copies of claims, complaints or settlement proposals to the SDG&E Designated SONGS 1 Counsel within three (3) working days of their receipt for any said claim or combination of said claims against or on behalf of any or both Parties or the Decommissioning Agent arising out of the same transaction or incident that is settled for more than \$250,000, or any threatened or pending actions or claims pertaining to regulatory enforcement or equitable relief. The Decommissioning Agent shall obtain review by the Decommissioning Project Team and approval of the Decommissioning Executive Board before any said claim or combination of said claims against or on behalf of any or both Parties or the Decommissioning Agent arising out of the same transaction or incident is settled for more than \$250,000, or any threatened or pending actions or claims pertaining to regulatory enforcement or equitable relief are settled regardless of the amount or potential amount of the claim.

8.3.21 Before identifying SDG&E as a named Plaintiff in a lawsuit, the Decommissioning Agent must secure that Party's prior written consent.

8.3.22 Keep the Parties fully and promptly advised of material changes in conditions or other material developments affecting the performance of Decommissioning Work and furnish the Parties with copies of any notices given or received pursuant to this Agreement.

8.3.23 Upon the request of any Party, provide such Party,

without direct charge therefor, a copy or copies of any report, record, list, budget, manual, accounting or billing summary, classification of accounts, or other documents or revisions of any of the aforesaid items, all as prepared in accordance with this Agreement.

8.3.24 Be responsible for (i) preparing and filing any reports, notices, or documents required to be filed with the NRC or any other regulatory authority or other applicable law, and (ii) preparing, filing, and prosecuting the application to the NRC for obtaining and continuing in effect all licenses, permits, and authorizations required by applicable law to (a) perform Decommissioning Work, (b) release any effluents and (c) store, ship, or dispose of Nuclear Fuel and any radioactive or non-radioactive wastes. The Decommissioning Agent shall furnish each Party with copies of all documents submitted and all licenses, permits, and authorizations received and shall keep each Party informed of the status of all licenses, permits, and authorizations in effect and any pending or proposed applications therefor or for changes thereto. Each Party shall cooperate with the Decommissioning Agent in the preparation, submission, and execution of such information, records, statements, or other material the Decommissioning Agent is required to surrender or to obtain in order to continue in effect any such licenses, permits, or authorizations and any changes thereto.

8.3.25 Provide information to assist the Parties in preparing filings to regulatory or taxing authorities concerning Decommissioning Work or Decommissioning Costs.

8.3.26 The Decommissioning Agent shall keep written minutes and records of Decommissioning Executive Board meetings.

8.3.27 Perform such other duties, responsibilities, and

obligations which may be assigned to it by the Decommissioning Executive Board.

8.4 Each Party shall:

8.4.1 Pay its Ownership Share for (i) Decommissioning Work and (ii) liabilities and obligations associated with or at any time arising from or in connection with the Decommissioning Work.

8.4.2 Advance funds or cause funds to be advanced from their respective trusts for the payment of Decommissioning Costs in accordance with procedures established pursuant to Section 8.2.8 hereof by the Decommissioning Project Team consistent with the Annual Decommissioning Activities Plan.

8.4.3 Provide to the Decommissioning Agent such certificates, documentation, or other information as may be reasonably required to permit the Decommissioning Agent to prepare and file any application with or report to the NRC or any other regulatory authority including reports on the status of Decommissioning Trust Funds; and, except as provided in Section 8.3.25 hereof, obtain at its own expense its required authorizations and approvals, if any, relating to its participation in the Decommissioning Work from federal, state, or local regulatory authorities having jurisdiction to issue such authorizations and approvals, and keep the Decommissioning Agent informed of the status of its applications therefore.

8.4.4 Jointly conduct or provide for the Audit not more than once annually of the books and records of the Decommissioning Agent and/or any contractor under a time and materials or cost reimbursement contract with the Decommissioning Agent which may be necessary to determine the nature and character of Decommissioning Costs billed directly or indirectly to the Parties. The audits for any calendar year should be completed within the next calendar year, and the results should be available to supplement review of the

Annual Decommissioning Activities Reports prepared pursuant to Section 8.2.4

hereof. In addition to such audits instituted by the Parties, any party may conduct an audit of such books and records at its cost not more than once annually.

8.4.4.1 Such audits shall be conducted (i) during normal business hours, (ii) so as not to interfere with normal business activities, and (iii) only after reasonable notice is given.

8.4.4.2 Decommissioning Agent agrees to fully cooperate with any such audits, and to respond in writing within 60 days to information requests. Responses shall include the information requested, the date the information will be provided, or the reasons the information will not be provided. If the Decommissioning Agent fails to respond within 60 days to an information request, the requesting Party may submit the matter to the fiscal representatives for resolution in accordance with Section 8.1.3.

8.4.4.3 If an audit reflects errors or omissions, appropriate billing adjustments shall be made, including interest at the rate set forth in Section 12.

8.4.4.4 If, as the result of the dispute resolution process contemplated in this Agreement, it is determined that a charge is not sufficiently supported to allow a Party to determine the nature and character of Decommissioning Costs directly or indirectly billed to a party, the Decommissioning Agent shall promptly refund the disputed amount, including interest at the rate set forth in Section 12.

8.4.4.5 This right to audit shall extend during the term of this Agreement and for three (3) years thereafter. Decommissioning Agent agrees to retain all necessary records and documentation for the entire length of this audit

period.

9. LIABILITY:

9.1 As used in this Section 9, the following terms shall have the following meanings, exclusively:

9.1.1 "Damage" means any loss, damage, cost, charge, or expense resulting from the performance of Decommissioning Work or arising from the performance or non-performance by a Party or the Parties of any of the provisions of this Agreement.

9.1.2 "Uninsured Damage" means Damage not paid for by valid and collectible insurance.

9.2 Except as permitted under Section 9.3 hereof, neither Party shall be liable to the other Party for Uninsured Damage resulting from a Nuclear Incident.

9.3 Neither Party, its directors, officers, or employees shall be obligated to discharge any aggregate liability to the other Party in excess of \$10 million for any single occurrence for any direct, indirect, or consequential Uninsured Damage of any kind or nature suffered by the other Party, resulting from Willful Action, and resulting from or arising out of the performance of Decommissioning Work or performance or non-performance by a Party or the Parties of any of the provisions of this Agreement.

Each Party expressly releases the other Party, its directors, officers and employees from any such aggregate liability in excess of \$10 million per occurrence and from any aggregate judgment in excess of \$10 million per occurrence obtained against a Party, its directors, members of its governing bodies, officers, or employees, for any such liability. No Party shall execute, levy, or otherwise enforce such a judgment, or record or effect a judgment lien,

against the other Party, its directors, officers, or employees for any part of such aggregate judgment in excess of \$10 million per occurrence.

9.4 A claim by any Party based on Willful Action must be perfected by filing suit in a court of competent jurisdiction.

9.5 Subject to Sections 9.2 through 9.4 hereof and except for Uninsured Damage resulting from Willful Action (and not resulting from or arising out of a Nuclear Incident), neither Party, its directors, officers, or employees shall be obligated to discharge any liability to the other Party, for any direct, indirect, or consequential Uninsured Damage of any kind or nature suffered by the other Party, whether or not resulting from the negligence of a Party, its directors, members of its governing bodies, officers, employees, or any other person or entity whose negligence would be imputed to a Party. Subject to the exceptions contained in this Section 9.5, each Party expressly releases each other Party, its directors, members of its governing bodies, officers, and employees from any such liability. No Party shall execute, levy, or otherwise enforce a judgment for such liability, including recording or effecting a judgment lien, against any other Party, its directors, members of its governing bodies, officers, or employees.

9.6 Subject to Sections 9.2 through 9.4 hereof and except for liability for Uninsured Damage resulting from Willful Action (and not resulting from or arising out of a Nuclear Incident), the Parties shall, as provided in Section 9.7, share and pay for:

9.6.1 The costs and expenses of discharging liability of one or both of the Parties for any direct, indirect, or consequential Uninsured Damage of any kind or nature suffered by any party other than a Party, whether or not resulting from the negligence of a Party, its directors, members of its

governing bodies, officers and employees, or any other person or entity whose negligence would be imputed to a Party; and

9.6.2 The costs and expenses incurred in settlement of injuries and damages claims, including attorneys' fees and the cost of labor and related supplies and expenses incurred in injuries and damages activities (all as referred to in FERC Account 925) resulting from or arising out of such liability.

9.7 For purposes of sharing costs and recovery amounts among the Parties pursuant to Section 9, such sharing shall be in proportion to their Ownership Shares in the facilities or land areas which give rise to the damage referred to therein.

9.8 The provisions of this Section 9 shall not be construed so as to relieve any insurer of its obligation to pay any insurance proceeds in accordance with the terms and conditions of valid and collectible insurance policies.

9.9 The aggregate liability limit of \$10 million referenced in Section 9.3 shall not apply to the failure or refusal, willful or otherwise, of any Party to meet its obligations under Sections 8.4.1 through Section 8.4.3.

10. DEFAULTS:

10.1 The rights of a Party found to be in default, pursuant to Section 7.6 hereof, to be represented on and participate in the actions of the Decommissioning Executive Board and all bodies hereunder shall be suspended until such time as (i) the underfunded Party deposits an amount that brings the cumulative balance of its Decommissioning Trust Fund(s) to at least its Ownership Share of the current Annual Decommissioning Cost Estimate within the time frame set forth in the Cure Plan or (ii) a decision is rendered in any arbitration determining that the alleged default was in error.

10.2 In addition to the provisions of Section 10.1 hereof for defaults by a Party, the following procedure shall be followed in dealing with payment

defaults under this Agreement:

10.2.1 If a Party does not pay all of its Decommissioning Cost Share of Decommissioning Costs incurred to Section 8.4.1 hereof, or does not advance funds or cause funds to be advanced to the Decommissioning Agent in accordance with Section 8.4.2 hereof within twenty-five (25) calendar days of the date of receipt of a statement of such expenditures from the Decommissioning Agent as provided in accordance with Section 8.3.15, such failure to pay shall be deemed to be a default under this Agreement and interest on any unpaid balances shall immediately begin to accrue at the Bank of America National Trust and Savings Association reference rate or such other reasonable rate as agreed upon by the Decommissioning Project Team. In the event of such a default, within twenty-five (25) calendar days, the Decommissioning Agent shall provide written notice to both Parties stating the existence and nature of the default by a Party. The Decommissioning Agent shall also commence the dispute resolution procedures set forth in Sections 8.1.3.1 and 8.1.4 hereof and, if necessary, the arbitration procedures in Section 11 hereof.

10.2.2 If a Party in default does not remit unpaid balances within twenty-five (25) calendar days of its receipt of written notice as provided in Section 10.2.1 hereof, interest on such unpaid balances shall continue to accrue at the Bank of America National Trust and Savings Association reference rate, or such other reasonable rate as agreed upon by the Decommissioning Project Team, except that, beginning with the twenty-sixth day following such notice, interest shall accrue at two (2) percentage points above the Bank of America National Trust and Savings Association reference rate, or such other reasonable rate as agreed upon by the Decommissioning

Project Team, until the default is cured by full payment of such unpaid balances, plus interest; provided that such interest rates shall not exceed the maximum legal contractual rate of interest.

10.2.3 If a default which has not been submitted to arbitration pursuant to Section 11 hereof, continues for 120 days after the date on which the Party in default receives notice of the default pursuant to Section 10.2.1 hereof, without having been cured by the Party in default pursuant to Section 10.2.2 hereof, or if such default continues for a period of thirty (30) days or such other period as may be prescribed in an arbitration award or court order following a determination contained in an arbitration award or court order that a default exists, then at any time thereafter and while such default continues, the Party that is not in default may, by written notice to both Parties, suspend the right of the Party in default to approve matters submitted to the Decommissioning Executive Board pursuant to this Agreement and to participate in the Decommissioning Executive Board and other committee activities.

10.2.4 The suspension of any rights of a Party in default under Section 10.2.3 hereof shall be terminated and its full rights hereunder restored when all of its defaults have been cured.

10.2.5 If the Decommissioning Agent is required to make payment to a Party pursuant to an arbitration award or a final judgment entered against the Decommissioning Agent arising out of a dispute relating to a requested, advance or payment to the Decommissioning Agent, and the Decommissioning Agent fails to pay amounts found due by such award or judgment, such failure to pay shall be deemed to be a default under this Agreement. In the event the Decommissioning Agent so defaults, interest on

any such amounts due shall continue to accrue at Bank of America National Trust and Savings Association reference rate, or such other reasonable rate as agreed upon by the Decommissioning Project Team, except that, beginning with the twenty-sixth (26th) day following such award or judgment, interest shall accrue at two (2) percentage points above Bank of America National Trust and Savings Association reference rate, or other reasonable rate as agreed upon by the Decommissioning Project Team, until such default is cured by full reimbursement of such amounts, plus interest; provided that such interest rates shall not exceed the maximum legal contractual rate of interest.

10.2.6 The rights and remedies of the Parties set forth in this Section 10 shall be in addition to the rights and remedies of the Parties set forth in this or any other of the San Onofre Agreements.

10.2.7 Nothing in this Section 10 shall affect (i) the right of a Party to dispute any advance or payment made by such Party or (ii) the obligation of such Party to pay such disputed amount.

10.3 Nothing in this Section 10 shall affect the right of a Party to bring an action against a defaulting Party pursuant to the requirements of (i) other applicable agreements, (ii) California Public Utilities Code Sections 8321 through 8330 as they may be amended from time to time, (iii) the regulatory requirements of the NRC, or (iv) any state or federal law or regulation which has jurisdiction with respect to any matter covered by this Agreement.

10.4 No Party shall be responsible for any consequences arising from or relating to any other Party's failure to make payments under this Agreement.

10.5 In the event the Decommissioning Agent defaults for any reason, the other Party shall have the option of acting as Decommissioning Agent until such default has been cured.

11. ARBITRATION:

11.1 If the Parties are unable to reach agreement with respect to a matter herein specified to be approved, established, determined, or resolved by agreement of the Parties, or by their representatives appointed pursuant to this Agreement, or in the event of a dispute pursuant to Section 8.1.3.1 and 8.1.4 or default pursuant to Section 10 under this Agreement any Party to the dispute may call for submission of such matter or dispute to arbitration in the manner herein set forth, which call shall be binding upon the other Parties to the dispute. Pending the final decision of the arbitrator, the Decommissioning Agent and the other Party shall act in accordance with the provisions of Sections 10 and 12 hereof.

11.2 The Party calling for arbitration shall give written notice to the other Party to the dispute, setting forth in such notice in detail the issues to be arbitrated, and within ten days from receipt of such notice the other Party to the dispute shall specify in detail additional related issues to be arbitrated.

11.3 Within twenty (20) days after the date of receipt of the initial notice of arbitration, the Parties to the dispute, acting through their respective members on the Decommissioning Executive Board or their designees, shall meet for the purpose of selecting one (1) arbitrator. In the event such members or designees shall fail to select such arbitrator as herein provided, then such members or designees shall request the American Arbitration Association (or a similar organization if the American Arbitration Association should not at that time exist) to provide a list of arbitrators, the number of which shall be one (1) more than there are Parties involved in the dispute. The arbitrators selected above, if any, and all arbitrators on such list shall be available to serve and shall be skilled and experienced in the field which gives rise to the dispute, and no person shall be eligible for appointment as an arbitrator who is or has been an

officer, member of the governing body, employee, or is a shareholder of any of the Parties to the dispute or is otherwise interested in the matter to be arbitrated. Within thirty (30) days after the date of receipt of such, list, such members or designees shall take turns striking names from said list. The last name remaining on said list shall be the selected arbitrator. Within ten (10) days after such selection, the Parties shall submit to such arbitrator the written notices prepared pursuant to Section 11.2 hereof.

11.4 The arbitrator shall consider evidence submitted by the Parties and may call for additional information. The Parties shall use their best efforts to furnish such additional information. The decision of the arbitrator shall be based on this Agreement and applicable laws and be binding upon all Parties to the dispute.

11.5 Except as otherwise provided herein, the arbitration shall be governed by the rules of practice and procedure of the American Arbitration Association from time to time in force, except that, if such rules and practice as herein modified shall conflict with the California Code of Civil Procedure or any provision of California or federal law then in force, such California or federal law shall govern. This submission and agreement to arbitrate shall be specifically enforceable. The award of the arbitrator upon any question submitted to the arbitrator hereunder shall be final and binding upon the Parties to the extent and in the manner provided by the California Code of Civil Procedure.

11.6 The fees and expenses of the arbitrator and the American Arbitration Association (or similar organization) shall be shared equally by the Parties to the dispute, unless the decision of the arbitrator shall specify some other apportionment of such fees and expenses. All other expenses and costs of the arbitration shall be borne by the Party incurring the same.

12. ACTIONS PENDING RESOLUTION OF DISPUTES: If a dispute should arise which is not resolved by the Decommissioning Executive Board or the higher authorities within the Parties' organizations, then, pending the resolution of the dispute by arbitration or judicial proceedings, the Decommissioning Agent shall continue to take such reasonable actions and make such reasonable expenditures which in its judgment are necessary to proceed with Decommissioning Work in a manner consistent with this Agreement, and the Parties shall continue to pay their Decommissioning Cost Shares of the costs to perform such Decommissioning Work in accordance with the provisions of this Agreement. Such payment shall not constitute a waiver of a dispute. The resolution of any dispute involving the failure of the Decommissioning Executive Board to reach agreement upon matters involving future expenditures shall have prospective application from the date of final determination, and amounts advanced by the Parties pursuant to this Section 12 during the pendency of such dispute shall only be subject to refund, with interest at the lesser of two (2) percentage points above the Bank of America National Trust and Savings Association reference rate, such other reasonable rate as agreed upon by the Decommissioning Executive Board, or the maximum rate permitted by law upon a final determination by arbitration or judicial proceedings that the expenditures were not made in a manner consistent with this Agreement.

13. AGREEMENT TERMINATION DATE:

13.1 This Agreement shall continue in force and effect until the date terminated by the Decommissioning Executive Board upon release of the facility to the Grantor (hereinafter "Agreement Termination Date"); provided however that:

(a) After the Agreement Termination Date, each Party shall possess the surviving rights as described in Section 13.1.1 hereof, and shall be subject to and obligated to fully satisfy the surviving obligations as defined in Section 13.1.2 hereof; and

(b) Any obligation of any Party to another Party under any provision of this Agreement or under any other San Onofre Agreement, including for example and without limitation the unamortized balance of the transition obligation relating to post-retirement benefits other than pensions, and any obligation arising under Section 10 hereof, which has not been satisfied prior to the Agreement Termination Date shall survive and be fully enforceable against such Party after the Agreement Termination Date.

13.1.1 The rights of each Party under any San Onofre Agreement shall survive after the Agreement Termination Date.

13.1.1.1 The rights of such Party in any unexpended balance of any fund or reserve established at any time by the Parties for the payment of any liability or obligation pursuant to any San Onofre Agreement(s) or any insurance policy providing Decommissioning Insurance or any Party self-insured arrangement which, as of the Agreement Termination Date, is not due or payable, is the subject of a dispute, or is indeterminate or contingent, including without limitation (i) any liability or obligation arising from any litigation instituted or claims asserted or anticipated prior to the Agreement Termination Date against the Parties related to Unit 1, either or both Parties, or the Decommissioning Agent with respect to any Decommissioning Work, (ii) any contingent liability for workers' compensation, employers' liability, employees' health, retirement or other benefits, (iii) any reserve or other funds held by any insurers on the Agreement Termination Date which under the terms of any insurance policy are or may become subject to

refund or otherwise payable to the Decommissioning Agent, or the Parties including without limitation the portion or premiums paid to American Nuclear Insurers, Inc. under its Nuclear Liability Policy or Master Workers Policy that are refundable pursuant to its Industry Credit Rating Plan or Industry Retrospective Rating Plan, (iv) any reserves of Nuclear Electric Insurance Limited or any other nuclear property insurer as may become payable to the Decommissioning Agent, or the Parties, (v) any proceeds paid or payable under any nuclear property insurance policy and held in trust or otherwise for reactor stabilization and decontamination or (vi) any liability for other claims of any nature as may be asserted subsequent to the Agreement Termination Date against the Parties related to Unit 1, either or both Parties, or the Decommissioning Agent; and

13.1.1.2 The rights and interests of any Party in

any real, personal, tangible or intangible property or assets or rights therein of Unit 1, which is not distributed to the Parties on or before the Agreement Termination Date.

13.1.2 The surviving obligations of each Party shall include:

13.1.2.1 The obligations of such Party under any

San Onofre Agreement(s) that shall continue to be in force and effect after the Agreement Termination Date;

13.1.2.2 Such Party's share, equal to its

Ownership Cost Share, of any liability identified in Section 13.1.2.1 hereof for which no fund or reserve is established on or prior to the Agreement Termination Date or which is in excess of any fund or reserve established on or prior to the Agreement Termination Date.

14. MISCELLANEOUS PROVISIONS:

14.1 Each Party represents and warrants that it has obtained all

necessary approvals to enter into this Agreement, and that it has legal authority to enter into and be bound by all of its undertakings as provided for in this Agreement.

14.2 If practicable, each Party shall furnish the other Party with the opportunity to review filings in joint proceedings relating to Unit 1 before they are submitted to the CPUC; provided, however, neither Party shall be obligated to disclose information to the other Party that: (i) is of a confidential nature or includes trade secrets or information relating to patents or copyrights provided, however, that the nature, extent, timing, and work product prepared by the third party Contractors and Subcontractors and Proprietary Rights as defined in Exhibit C resulting from Decommissioning Work shall not be treated as confidential as between the Parties; (ii) Section 583 of the California Public Utilities Code protects from public disclosure; (iii) was developed to assist that Party's management in its decision-making process; (iv) consists, in whole or in part, of the opinion of that Party's management; (v) the disclosure of which would affect the Party's competitive position; (vi) is subject to the attorney-client or attorney work product privilege; or (vii) is any combination of the foregoing.

15. UNCONTROLLABLE FORCES: No Party shall be considered to be in breach of any of the obligations hereunder, other than the obligation to pay money, to the extent failure of performance shall be due to uncontrollable forces. The term "uncontrollable forces" shall mean any cause beyond the control of a Party unable to perform such obligation, including, but not limited to, failure or threat of failure of facilities, flood, earthquake, storm, fire, lightning, and other natural catastrophes, epidemic, war, riot, civil disturbance, labor dispute, sabotage, government priorities, restraint by court order or public authority, and action or non-action by or failure to obtain the necessary authorizations or approvals from any government agency or authority, which by exercise of

reasonable diligence and foresight such Party could not reasonably have been expected to avoid and which by exercise of reasonable diligence it has been unable to overcome. Nothing contained herein shall be construed so as to require a Party to settle any strike or labor dispute in which it may be involved. Any Party rendered unable to fulfill any obligation by reason of an uncontrollable force shall exercise due diligence to remove such inability with all reasonable dispatch.

16. RELATIONSHIP OF PARTIES:

16.1 The covenants, obligations, and liabilities of the Parties are intended to be several and not joint or collective, and nothing herein contained shall ever be construed to create an association, joint venture, trust or partnership, or to impose a trust or partnership covenant, obligation or liability on or with regard to any of the Parties. Each Party hereto shall be individually responsible for its own covenants, obligations, and liabilities as herein provided.

No Party shall be under the control of, or shall be deemed to control, another Party. With respect to this Agreement, neither Party shall have a right or power to bind the other Party without its express written consent, except as expressly provided in this Agreement.

16.2 The Parties hereby elect to be excluded from the application of Subchapter "K" of Chapter 1 of Subtitle "A" of the Internal Revenue Code of 1986, or such portion or portions thereof as may be permitted or authorized by the Secretary of the Treasury or the Secretary's delegate insofar as such subchapter, or any portion or portions thereof, may be applicable to the Parties under this Agreement..

17. NO THIRD PARTY BENEFICIARIES: This Agreement is for the sole benefit of the Parties, and shall not be construed as granting rights to any

person or entity other than the Parties or imposing obligations on any Party to any person or entity other than the other Party.

18. ASSIGNMENT:

18.1 Any assignment by a Party of its interest in this Agreement which is made without the written consent of the other Party shall not relieve the assigning Party from primary liability for any of its duties and obligations hereunder, and in the event of any such assignment the assigning Party shall continue to remain primarily liable for payment of any and all money due the other Party hereunder and for the performance and observance of all other covenants, duties, and obligations to be performed and observed hereunder by it to the same extent as though no assignment had been made.

18.2 In the event SCE assigns all or a part of its interest in this agreement, SDG&E shall have the option of becoming the Decommissioning Agent. After SDG&E becomes the Decommissioning Agent, in the event SDG&E assigns all or a part of its interest in this Agreement, SCE's assignee shall have the option of becoming the Decommissioning Agent.

18.3 Whenever an assignment of a Party's interest in this Agreement is made with the written consent of the other Party, the assigning Party's assignee shall expressly assume in writing the duties and obligations hereunder of the assigning Party, and within thirty (30) days after any such assignment and assumption of duties and obligations, the assigning Party shall furnish or cause to be furnished to the other Party a true and correct copy of such assignment and assumption of duties and obligations.

19. NOTICES: All notices under this Agreement shall be in writing and shall be delivered in person or sent by registered or certified mail to the applicable of the following addresses:

Southern California Edison Company c/o Secretary
2244 Walnut Grove Avenue
Rosemead, California 91770

San Diego Gas & Electric Company c/o Secretary
8306 Century Park Court
San Diego, California 92123-1593

By notice sent to the other Party, any Party may designate different persons or different addresses for the giving of notices. hereunder.

20. GOVERNING LAW: This Agreement shall be interpreted under, governed by, and construed under the laws of the State of California or the laws of the United States, as applicable, as if executed and to be performed wholly within the State of California.

21. CAPTIONS AND HEADINGS: All captions and headings appearing in this Agreement are inserted for reference and shall not govern the interpretation of the provisions of this Agreement.

22. NON-WAIVER: Any waiver at any time by any Party of its rights with respect to a default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not be deemed a waiver with respect to any subsequent default or other matter arising in connection therewith.

23. EXECUTION OF COUNTERPARTS: This Agreement may be executed in two counterparts, and upon execution by both Parties, each executed counterpart shall have the same force and effect as an original instrument and as if both Parties had signed the same instrument. Any signature page of this

Agreement may be detached from any counterpart of this Agreement without impairing the legal effect of any signatures thereon, and may be attached to another counterpart of this Agreement identical in form hereto but having attached to it one or more signature pages.

24. INTEGRATION CLAUSE: This Agreement, each Exhibit and Schedule hereto constitute the complete and exclusive statement of agreement among the Parties hereto with respect to the subject matter herein and therein and replace and supersede all prior written and oral agreements or statements by and between the Parties hereto or any of them. No representation, statement, condition or warranty not contained in this Agreement, and the Exhibits hereto shall be binding on the parties hereto or have any force or effect whatsoever with respect to the subject matter herein and therein.

25. SEVERABILITY CLAUSE: If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law.

26. SIGNATURE CLAUSE: The Parties have caused this Agreement to be executed on their behalf and the signatories hereto represent that they have been duly authorized to enter into this Agreement on behalf of the Party for whom they sign. This Agreement may be executed in counterpart and shall be effective when it has been executed by all Parties. This Agreement is hereby executed as of the 23rd day of March, 2000.

SOUTHERN CALIFORNIA EDISON
COMPANY

By: /s/ Joseph J. Wambold

Name: Joseph J. Wambold

Title: Vice President – Nuclear,
Business & Support Services

SAN DIEGO GAS & ELECTRIC
COMPANY

By: /s/ Edwin A. Guiles

Name: Edwin A. Guiles

Title: President

EXHIBIT A

DEFINED TERMS

Unless otherwise defined therein, terms used in the Decommissioning Agreement with initial capitalization, whether singular or plural, shall have the meanings set forth in this Exhibit A.

1. Administrative and General (A&G): Includes all charges from A&G organizations necessary for the successful completion of the Decommissioning Project as described in Exhibit B.
2. Agreement: The San Onofre Unit 1 Decommissioning Agreement between Southern California Edison Company and San Diego Gas & Electric Company including all exhibits and attachments thereto, as such agreement may be amended from time to time.
3. Agreement Termination Date: This Agreement shall continue in force and effect until the date terminated by the Decommissioning Executive Board upon termination of the then-current license and release of the facility to the Grantor, subject to the surviving rights and obligations as defined in Section 13 of the Decommissioning Agreement.
4. Annual Decommissioning Activities Plan: The plan and budget for the Decommissioning Work to be performed during each calendar year, to be prepared annually by the Decommissioning Agent and approved by the Decommissioning Executive Board.

5. Annual Decommissioning Activities Report: A comparison of the Decommissioning Work scheduled to be completed during each calendar year and its budgeted cost with the work actually completed and its actual cost, and a description of any material work scope or cost element changes that occurred during that year.

6. Annual Decommissioning Funding Status Report: A report prepared annually by the Decommissioning Agent comparing each Party's actual cumulative dollar balance in its Decommissioning Trust Funds to the dollar cumulative balance to that Party's Ownership Share of the current Annual Adjusted Decommissioning Cost Estimate.

7. Annual Trust Fund Liquidation Balance: The liquidation value of its Decommissioning Trust Funds as of the end of the calendar year. ~~8. Annually Adjusted Decommissioning Cost Estimate: The~~ decommissioning cost estimate described in Section 7.2 of the Agreement.

9. Commission or CPUC: The California Public Utilities Commission or its successor.

10. Cure Plan: A Cure Plan is a plan, to be proposed by a Party that has been declared underfunded and approved by the other Party, which commits the underfunded Party to a method of depositing in its Decommissioning Trust Fund(s) an amount that brings the cumulative balance(s) to at least its Decommissioning Cost Share of the Annually Adjusted Decommissioning Cost Estimate, as defined in

Section 7 of the Decommissioning Agreement, that is in effect at the end of the prescribed time period, within a commercially reasonable period, and of paying its Decommissioning Cost Share of all Decommissioning Costs during the period.

11. Decommissioning Agent: The Party responsible for Decommissioning Work pursuant to Section 6.2 of the Decommissioning Agreement with responsibilities set forth in Section 8.3 thereof.

12. Decommissioning Cost Estimate: A Unit 1 site specific estimate of expenditures, based on technology and requirements in existence at the time the estimate is prepared, to be incurred during the course of Decommissioning Work. This shall include, but not be limited to the costs for labor, materials, equipment, energy, services, and overhead expenses, nuclear fuel dry storage monitoring expenses, applicable labor loading charges, administrative and general expenses of the Decommissioning Agent as adopted by the Decommissioning Executive Board, and contingency for the uncertainties likely to be encountered when Decommissioning Work is actually performed. The estimate shall be developed at the 100% Ownership Share in then-current dollars, and shall be based on assumptions when specific considerations are not known.

13. Decommissioning Costs: The costs and obligations incurred in the performance of Decommissioning Work including overhead expenses, applicable labor loading charges, and administrative and general expenses of the Decommissioning Agent as adopted by the Decommissioning Executive Board, but

excluding any expenses incurred by any Party in administering, managing, and investing monies in its Decommissioning Trust Fund(s).

14. Decommissioning Cost Share: Each Party's share of the Decommissioning Costs, in proportion to their respective ownership interests of each Party in San Onofre Nuclear Generating Station Unit 1 as set forth in Section 2 of the San Onofre Ownership Agreement and as may be amended from time to time or any assignment agreement in which an ownership interest is transferred to a third party.

15. Decommissioning Executive Board: The board established pursuant to Section 6.1.1 of the Decommissioning Agreement with responsibilities set forth in Section 8.1 thereof.

16. Decommissioning Project Team: The organization established by SCE and supported by SDG&E to conduct the SONGS 1 Decommissioning, construct an Independent Spent Fuel Storage Installation (ISFSI) and place SONGS 1 Fuel in Dry Storage in the ISFSI.

17. Decommissioning Trust Fund: The fund or funds, held by an Independent Trustee, in which each Party shall establish, accumulate, and maintain monies for its Decommissioning Cost Share of the Decommissioning Work in accordance with the Decommissioning Agreement.

18. Decommissioning Work: All work necessary to meet the requirements of the Project Land Rights, the San Onofre Agreements, the California Public

Utilities Code, and any other applicable federal, state, and local regulation, including but not limited to the following:

18.1 Prepare, submit, and prosecute applications or filings required to perform Decommissioning Work;

18.2 Safely remove and dispose of all structures, facilities, and equipment from the Project Land Areas;

18.3 Sell, or transfer and convey all structures, equipment, materials, or facilities that have net salvage value and are no longer required for construction, operation, maintenance, or Decommissioning Work; and

18.4 Perform Site Restoration in accordance with the Project Land Rights.

19. Grantor: The United States Department of the Navy.

20. Liquidation Value: The estimated market value of Decommissioning Trust Fund(s), as determined by a nationally recognized pricing service, less deferred taxes on unrealized capital gains, accrued taxes, and administrative costs.

21. Master Trust Agreement: The documents governing the Utilities' Nuclear Decommissioning Trusts. There are separate Master Trust Agreements for the Qualified Trusts, contributions to which qualify for income tax deductions under Section 468A of the Internal Revenue Code, and for the Nonqualified Trusts which hold the remaining required decommissioning funds. The Master Trust Agreements have been approved by the CPUC, which is a signatory on the documents.

22. Nuclear Decommissioning Cost Triennial Proceeding or NDCTP: The triennial review of nuclear decommissioning cost estimates, contribution levels, and decommissioning work established by the Commission.

23. Nuclear Fuel: Any source, special nuclear, or by-product material, as such terms are defined in the Atomic Energy Act of 1954, as amended from time to time, including irradiated fuel and radioactive waste and other products resulting directly from, or as a result of, reprocessing, which is possessed or utilized in connection with a Unit, or produced or remaining as a result of the operation of such Unit.

24. Nuclear Incident: As defined in Section 11(q) of the Atomic Energy Act of 1954, as amended, a nuclear incident is any occurrence, including an extraordinary nuclear occurrence, within the United States causing, within or outside the United States, bodily injury, sickness, disease, or death, or loss of or damage to property, or loss of use of property, arising out of or resulting from the radioactive, toxic, explosive, or other hazardous properties of source, special nuclear, or byproduct material.

25. NRC: The United States Nuclear Regulatory Commission or any predecessor or successor organization.

26. Operating Agreement: The Second Amended San Onofre Operating Agreement among the Parties executed as of February 26, 1987, including all attachments and exhibits thereto, which primarily provided for matters related to

the operation and maintenance of and capital improvements for each Unit, the infrastructure, and the common facilities at the San Onofre Nuclear Generating Station.

27. Ownership Share: The percentage ownership interests of each Party in the San Onofre Nuclear Generating Station as set forth in Section 2 of the San Onofre Ownership Agreement and as may be amended from time to time.

28. Prescribed Accounting Practice: Generally accepted accounting principles, in accordance with FERC Accounts, applicable to electric utility operations.

29. San Onofre Nuclear Generating Station or SONGS: The entire nuclear generating facility located on land in the northwest corner of the Marine Corps Base, Camp Pendleton, California, consisting of Unit 1, Unit 2, Unit 3, the Common Facilities, the Edison Switchyard, the San Diego Switchyard, the Interconnection Facilities, and any Additional Generating Units subsequently constructed or installed.

30. San Onofre Ownership Agreement: The agreement executed by Edison and San Diego as of October 5, 1967, which was recorded on October 6, 1967, in Series 8, Book 1967, Page 154649 of Official Records in the office of the County Recorder of the County of San Diego, as amended from time to time.

31. SDG&E Designated SONGS 1 Counsel: The in-house or outside counsel which SDG&E designates in writing to the Decommissioning Agent as its

SONGS 1 counsel. When SDG&E changes its designated SONGS 1 counsel, it should use its best effort to provide notice of the change within three (3) working days.

32. SONGS 1 Decommissioning: The process of safely removing and disposing of all contaminated and non-contaminated equipment, components, and buildings to a level that permits release of Unit 1 for unrestricted use and termination of applicable NRC licenses, as necessary to meet the requirements of the San Onofre Agreements, the California Public Utilities Code, the Project Land Rights, and any other applicable federal, state, or local law or regulations.

33. Uniform System of Accounts: The Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission for public utilities and licensees subject to the provisions of the Federal Power Act, as amended.

34. Uninsured Damage: Damage not paid for by valid and collectible insurance.

35. Unit 1: The first nuclear generating unit at the San Onofre Nuclear Generating Station consisting of a nuclear steam supply system, a turbine-generator, and all related equipment and facilities which are necessary for the safe and efficient generation of electrical energy including the power circuit breakers, transformer side disconnect switches, conductors, structures, foundations, and dead-end assemblies installed in the Switchyard Area and associated with the Unit 1 main transformer leads and reserve auxiliary transformer leads.

36. Willful Action: Action taken or not taken by a Party at the direction of

its directors, officers, or employees having management or administrative

responsibility affecting its performance under this Agreement, which:

36.1 is knowingly or intentionally taken or not taken with conscious indifference to the consequences thereof or with intent that injury or damage would result or would probably result therefrom;

36.2 has been determined by final arbitration award or final judgment or judicial decree to be a material default under this Agreement and which occurs or continues beyond the time specified in such arbitration award or judgment or judicial decree for curing such default, or, if no time to cure is specified therein, occurs or continues thereafter beyond a reasonable time to cure such default; or

36.3 is knowingly or intentionally taken or not taken with the knowledge that such action taken or not taken is a material default under this Agreement. Willful Action does not include any act or failure to act which is merely involuntary, accidental, or negligent.

As used herein, the phrase "employees having management or administrative responsibility" refers to employees of a Party who are responsible for one or more of the executive or administrative functions of planning, organizing, coordinating, directing, controlling, and supervising such Party's performance under this Agreement; provided, however, that, with respect to employees of the Decommissioning Agent acting in its capacity as such and not in its capacity as a

Party, the phrase "employees having management or administrative responsibility"

shall refer only to (i) the Decommissioning Project Manager or the employee who has been designated to act and is acting for the Decommissioning Project Manager, and (ii) anyone in the organizational structure of the Decommissioning Agent

between the Decommissioning Project Manager and an officer.

EXHIBIT B

A&G PROCESS FOR THE SONGS UNIT 1 DECOMMISSIONING PROJECT

1. The San Onofre Unit 1 decommissioning project will be charged for SCE corporate A&G (includes A&G and incremental P&B) costs based on the normal Corporate Accounting and Recording System (CARS) procedures for allocating such costs to capital projects on a monthly basis. The normal CARS process involves the allocation of all corporate A&G costs to both O&M and Capital charges. That portion of A&G costs chargeable to capital is a percentage approved by the CPUC. Those A&G costs attributable to capital are then distributed on a monthly basis to all capital work orders on a proportional basis. Thus, the decommissioning work order will receive only its proportional share of the total capital A&G costs of the company. This amount will be included monthly in the project request for funds to SDG&E.
2. Certain accounts within the decommissioning project accounting codes will NOT be subject to allocation of corporate A&G. Accounts that will fall into this category are those that will contain direct payments for NRC fees, Nuclear Specific Insurance, and Low Level Radioactive Waste (LLRW) burial.
3. All payroll taxes and pensions and benefits charges associated with the San Onofre Unit 1 Decommissioning Project will be direct charged to the work order rather than using any allocation methodology. These charges will not, therefore, be included in the SONGS 1 Decommissioning Project A&G.

4. Since Workmen's Compensation Insurance costs are now to be direct billed to the appropriate work orders, NO such costs will be included in the A&G allocation process. The only Workmen's Compensation costs incurred by the project will be those resulting from decommissioning activities.

EXHIBIT C

PROPRIETARY RIGHTS

1. Ownership of Proprietary Rights: The Parties' rights to inventions, discoveries, trade secrets, patents, copyrights, and other intellectual property and revisions thereto (hereinafter collectively referred to as "Proprietary Rights"), used or developed by contractors or subcontractors in the performance of Decommissioning Work, including information or documentation accompanying Decommissioning Work, shall be governed by the following provisions, which the Decommissioning Agent shall incorporate as appropriate into purchase orders issued for Decommissioning Work:
 - a. Proprietary Rights conceived, developed, or reduced to practice by contractors or subcontractors in the performance of Decommissioning Work shall be works made for hire and, if applicable, become the jointly held property of the Parties, and the contractor or subcontractor shall cooperate with all appropriate requests by the Decommissioning Agent to assign and transfer such rights to the Parties in any countries throughout the world.
 - b. If Proprietary Rights conceived, developed, or reduced to practice by contractors or subcontractors prior to the performance of the Decommissioning Work are used in and become integral with the Decommissioning Work or accompanying information and documentation, or

if such Proprietary Rights are necessary for the Parties to have complete enjoyment of the Decommissioning Work or accompanying information and documentation, contractor or subcontractor shall grant to the Parties a jointly held, non-exclusive, irrevocable, royalty-free license, as the Parties may require for complete enjoyment of such Decommissioning Work and accompanying information and documentation, including the rights to reproduce, correct, repair, replace, maintain, translate, publish, use, modify, copy or dispose of, and grant sublicenses to others with respect to the Decommissioning Work and accompanying information and documentation.

c. If the Decommissioning Work or accompanying information and documentation includes the Proprietary Rights of others, contractor or subcontractor shall procure all necessary licenses regarding such Proprietary Rights of others, at no additional cost to the Parties, so that the Parties may completely enjoy their rights to the Decommissioning Work and accompanying information and documentation, including the rights to reproduce, correct, repair, replace, maintain, translate, publish, use, modify, copy or dispose of, and grant sublicenses to others with respect to the

Decommissioning Work and accompanying information and documentation.

All such licenses shall be in writing and shall be irrevocable and royalty-free to the Parties.

2. Joint Ownership of Proprietary Rights: Both Parties shall have an equal and non-exclusive ownership interest in any Proprietary Rights obtained from contractors or subcontractors during the course of performing Decommissioning Work. Both Parties shall have an equal and separate right to utilize such Proprietary Rights, either jointly or individually, regardless of whether such individual utilization results in competition between the Parties in subsequent projects.

3. No Additional Compensation: Nothing set forth in this Exhibit C shall be deemed to require payment by the Parties to any contractor or subcontractor or by any Party to the other of any compensation specifically for the assignments and assurances required hereby, other than the payment of expenses as may be actually incurred by the contractor or subcontractor in complying with these provisions.

**FIRST AMENDMENT TO THE
SAN ONOFRE UNIT NO. 1 DECOMMISSIONING AGREEMENT
BETWEEN
SOUTHERN CALIFORNIA EDISION COMPANY AND
SAN DIEGO GAS & ELECTRIC COMPANY**

1. **PARTIES:** The parties to this First Amendment to the San Onofre Unit No. 1 Decommissioning Agreement are: SOUTHERN CALIFORNIA EDISION COMPANY, a California Corporation (“Edison”) and SAN DIEGO GAS & ELECTRIC COMPANY, a California Corporation (“SDG&E”). Edison and SDG&E are sometimes referred to individually as “Party” and collectively as “Parties”.
2. **RECITALS:** This Amendment is made with reference to the following facts, among others:
- 2.1. The Parties entered into the San Onofre Ownership Agreement, effective as of October 5, 1967; the San Onofre Operating Agreement, effective as of June 1, 1966; and the Amended San Onofre Operating Agreement, effective as of October 5, 1967. The Amended San Onofre Operating Agreement primarily provided for tenancy in common ownership, operation and maintenance, capital improvements, and other matters relating to San Onofre Nuclear Generating Station (SONGS) Unit 1. Unit 1 was placed in commercial operation on January 1, 1968.
- 2.2. The Parties elected to terminate the Amended San Onofre Operating Agreement and entered into the Second Amended San Onofre Operating Agreement, effective as of February 26, 1987, as amended, which provided for, primarily, matters relating to the operation and maintenance of and capital improvements to SONGS Unit 1, 2 and 3, and the SONGS Common Facilities.
- 2.3. Unit 1 permanently ceased operation on November 30, 1992 pursuant to CPUC Decision 92-08-036, dated August 11, 1992.

2.4. On June 3, 1999, pursuant to Decision 99-06-007, the CPUC authorized Edison and SDG&E to access their nuclear decommissioning trust funds for the purpose of performing the Decommissioning Work for SONGS Unit 1.

2.5. On March 23, 2000, the Parties entered into this Decommissioning Agreement to provide for the rights, duties, and obligations of the Parties, as tenants in common, with respect to Decommissioning Work and sharing of costs thereof for SONGS Unit 1. The Decommissioning Agreement provides that Decommissioning Work for SONGS Unit 1 will be conducted in three phases. In Phase I, the unit will be dismantled and the SONGS 1 spent fuel will be moved from the spent fuel pools to dry storage. In Phase II, the spent fuel dry storage facility will be monitored until the SONGS 1 spent fuel is removed. In Phase III, the dry fuel storage facility will be dismantled, the NRC license terminated, and the final site restoration work completed.

2.6. On January 1, 2009, Phase I of the Decommissioning Work for SONGS Unit 1 was completed and Phase II commenced. The scope of Phase II of the Decommissioning Work requires the continued expenditure of nuclear decommissioning funds, but on a reduced scale compared with Phase I. The Parties, therefore, now desire to amend this Decommissioning Agreement to provide for the rights, duties, and obligations of the Parties with respect to Phase II of the Decommissioning Work for SONGS Unit 1. The Parties agree to provide for their rights, duties, and obligations with respect to Phase III in a separate amendment, to be executed near the completion of Phase II.

3. AGREEMENT: In consideration of the foregoing recitals, which are incorporated herein by reference, and the terms and conditions contained in this Amendment to the Decommissioning Agreement, the Parties agree as follows:

4. DUTIES OF THE DECOMMISSIONING EXECUTIVE BOARD

4.1. The Parties agree to suspend the requirement for the Decommissioning Executive Board to meet at least twice per year, as set forth under Section 8.1.1.3 of the

Decommissioning Agreement, for such time as Phase II of the Decommissioning Work is in effect.

4.2. During Phase II, the Decommissioning Executive Board shall meet once per year to discuss the Annual Decommissioning Activities Plan prepared by the Decommissioning Agent as set forth under Section 8.2.3. By approving the Annual Decommissioning Activities Plan, each Decommissioning Executive Board member shall represent that its management has approved its respective share of that budget expenditure as set forth under Section 8.1.1.6.

4.3. Each Party may request additional meetings of the Decommissioning Executive Board with advance written notice of at least fourteen (14) calendar days. The requesting Party shall use best efforts to provide a proposed agenda for such meeting and two copies of any written material on which action is proposed to be taken at such meeting to the Decommissioning Executive Board at least fourteen (14) calendar days in advance of any meeting as set forth under Section 8.1.1.4.

4.4. Following the commencement of Phase III of the Decommissioning Work, the Decommissioning Executive Board shall resume meeting at least twice per year pursuant to Section 8.1.1.3. .

5. DUTIES OF THE DECOMMISSIONING PROJECT TEAM

5.1. During Phase II, the Parties agree to suspend the requirement to provide a report (the "Report") to the SDG&E fiscal representative semiannually which identifies and describes all major Decommissioning Work currently being considered to be performed during the next six months by resources of the Decommissioning Agent in lieu of contractor resources, as set forth under Section 8.2.9. The Decommissioning Project Team shall provide this Report to the SDG&E fiscal representative once per year.

5.2. Following the commencement of Phase III of the Decommissioning Work, the Parties agree to reinstate the requirement to provide a Report to the SDG&E fiscal representative semiannually.

6. DUTIES OF THE DECOMMISSIONING AGENT

6.1. During Phase II, the Decommissioning Agent shall invoice the other Party to this Agreement during the second half of the first month in each calendar quarter for forecasted Decommissioning Costs to be incurred during that calendar quarter in accordance with the procedures and practices established pursuant to Section 8.2.8, and provide an actual account of the previously completed calendar quarter. Each invoice shall be supportable by the appropriate documents for verification of the invoice charges including, but not limited to, purchase order details, vendor progress reports, contractor invoices, and Decommissioning Agent man-hour listing. These documents shall be available for review within three business days upon request by the other Party to this Agreement.

6.2. Following the commencement of Phase III of the Decommissioning Work, the Parties agree to reinstate the monthly invoicing procedure as defined in Section 8.3.15.

7. DEFINITIONS: Unless otherwise defined herein, terms used herein with initial capitalization, whether in the singular or plural, will have the meanings as defined in Section 4 of the Decommissioning Agreement and in Sections 4.1 through 4.3, below.

7.1. Phase I: The decontamination, dismantling, and disposal or final disposition of all contaminated and non-contaminated onshore and offshore nuclear site equipment (except as expressly reserved until Phase II), components, buildings, structures, and foundations, excluding any such assets that must be left in place until final site restoration, and the surveying and documentation of the radiological and environmental status of the site.

7.2. Phase II: The final disposition of any nuclear site equipment expressly reserved from Phase I; and the monitoring and provision of security for the spent fuel in the spent fuel dry storage facility, and all remaining site facilities required to support the

spent fuel dry storage facility after Phase I Decommissioning Work is complete until all of the unit's spent fuel is removed from the site.

7.3. Phase III: The decontamination, dismantling, and disposal of the spent fuel dry storage facility; the disposal of all remaining nuclear site equipment, components, buildings, structures, and foundations after all of the unit's spent fuel is removed from the site, the surveying and documentation of the radiological and environmental status of the site, the termination of the NRC license, and the final site restoration work and termination of the site easement-lease contracts.

8. EFFECTIVE DATE: This Amendment will become effective as of the date that it has been executed by both Parties.

9. AMENDMENT TERMINATION DATE: This Amendment shall continue in effect until the completion of Phase II of the Decommissioning Work for SONGS Unit 1.

10. SIGNATURE CLAUSE: The Parties have caused this Amendment to be executed on their behalf and the signatories hereto represent that they have been duly authorized to enter into this Amendment on behalf of the Party for whom they sign. This Amendment may be executed in counterpart and is effective when it has been executed by both Parties. This Agreement is hereby executed as of the 22nd day of January, 2010.

SOUTHERN CALIFORNIA EDISON
COMPANY

SAN DIEGO GAS & ELECTRIC COMPANY

By: /s/ Ross Ridenoure

Name: /s/ Ross Ridenoure

Title: Senior VP & CNO

By: /s/ James P. Avery

Name: /s/ James P. Avery

Title: Sr. Vice President, Power Supply

Total earnings for purpose of ratio	\$	1,468	\$	1,283	\$	2,376	\$	1,846	\$	1,401	\$	1,854
Ratio of earnings to combined fixed charges and preferred stock dividends		4.22		3.59		5.47		4.63		3.80		3.94
Ratio of earnings to fixed charges		4.22		3.59		5.47		4.63		3.80		3.94

(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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Fixed Charges and Preferred Stock Dividends:					
Interest	\$ 77	\$ 102	\$ 105	\$ 107	\$ 118
Interest portion of annual rentals	<u>3</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>
Total fixed charges	80	105	108	108	119
Preferred stock dividends (1)	<u>6</u>	<u>8</u>	<u>7</u>	<u>7</u>	<u>7</u>
Combined fixed charges and preferred stock dividends for purpose of ratio	<u>\$ 86</u>	<u>\$ 113</u>	<u>\$ 115</u>	<u>\$ 115</u>	<u>\$ 126</u>
Earnings:					
Pretax income from continuing operations	\$ 356	\$ 394	\$ 406	\$ 451	\$ 550
Total fixed charges (from above)	80	105	108	108	119
Less: Interest capitalized	<u>1</u>	<u>1</u>	<u>3</u>	<u>13</u>	<u>4</u>
Total earnings for purpose of ratio	<u>\$ 435</u>	<u>\$ 498</u>	<u>\$ 511</u>	<u>\$ 546</u>	<u>\$ 665</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>5.06</u>	<u>4.41</u>	<u>4.44</u>	<u>4.75</u>	<u>5.28</u>
Ratio of earnings to fixed charges	<u>5.44</u>	<u>4.74</u>	<u>4.73</u>	<u>5.06</u>	<u>5.59</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
PACIFIC ENTERPRISES
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	2005	2006	2007	2008	2009
Fixed Charges:					
Interest	\$ 55	\$ 78	\$ 78	\$ 68	\$ 75
Interest portion of annual rentals	3	4	3	2	1
Preferred dividends of subsidiary (1)	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total fixed charges	60	84	83	72	78
Preferred stock dividends	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
Combined fixed charges and preferred stock dividends for purpose of ratio	<u>\$ 66</u>	<u>\$ 90</u>	<u>\$ 89</u>	<u>\$ 78</u>	<u>\$ 84</u>
Earnings:					
Pretax income from continuing operations	\$ 325	\$ 426	\$ 408	\$ 394	\$ 415
Total fixed charges (from above)	60	84	83	72	78
Less: Interest capitalized	-	1	1	-	1
Less: Preferred dividends of subsidiary (1)	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>
Total earnings for purpose of ratio	<u>\$ 384</u>	<u>\$ 508</u>	<u>\$ 489</u>	<u>\$ 465</u>	<u>\$ 490</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>5.82</u>	<u>5.64</u>	<u>5.49</u>	<u>5.96</u>	<u>5.83</u>
Ratio of earnings to fixed charges	<u>6.40</u>	<u>6.05</u>	<u>5.89</u>	<u>6.46</u>	<u>6.28</u>

(1) In computing this ratio, "Preferred dividends of subsidiary" represents the before-tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

EXHIBIT 12.4
SOUTHERN CALIFORNIA GAS COMPANY
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Fixed Charges:					
Interest	\$ 50	\$ 72	\$ 72	\$ 65	\$ 74
Interest portion of annual rentals	<u>3</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>1</u>
Total fixed charges	53	76	75	67	75
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>\$ 55</u>	<u>\$ 78</u>	<u>\$ 77</u>	<u>\$ 69</u>	<u>\$ 77</u>
Earnings:					
Pretax income from continuing operations	\$ 309	\$ 397	\$ 391	\$ 385	\$ 418
Add: Total fixed charges (from above)	53	76	75	67	75
Less: Interest capitalized	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total earnings for purpose of ratio	<u>\$ 362</u>	<u>\$ 472</u>	<u>\$ 465</u>	<u>\$ 452</u>	<u>\$ 492</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>6.58</u>	<u>6.05</u>	<u>6.04</u>	<u>6.55</u>	<u>6.39</u>
Ratio of earnings to fixed charges	<u>6.83</u>	<u>6.21</u>	<u>6.20</u>	<u>6.75</u>	<u>6.56</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

TABLE OF CONTENTS

	<i>Page</i>
Management's Discussion and Analysis of Financial Condition and Results of Operations	
Our Business	2
Executive Summary	8
Business Strategy	8
Key Issues in 2009	8
Results of Operations	9
Overall Results of Operations of Sempra Energy and Factors Affecting the Results	9
Business Unit Results	10
Changes in Revenues, Costs and Earnings	14
Transactions with Affiliates	26
Book Value Per Share	26
Capital Resources and Liquidity	27
Cash Flows from Operating Activities	29
Cash Flows from Investing Activities	31
Cash Flows from Financing Activities	34
Factors Influencing Future Performance	41
Sempra Energy Overview	41
Litigation	42
Sempra Utilities – Industry Developments and Capital Projects	42
Sempra Global Investments	42
Market Risk	43
Critical Accounting Policies and Estimates, and Key Noncash Performance Indicators	46
New Accounting Standards	52
Information Regarding Forward-Looking Statements	53
Common Stock Data	54
Performance Graph – Comparative Total Shareholder Returns	55
Five-year Summaries	56
Controls and Procedures	
Evaluation of Disclosure Controls and Procedures	60
Management's Report on Internal Control over Financial Reporting	60
Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	60
Reports of Independent Registered Public Accounting Firm	61
Consolidated Financial Statements	
Sempra Energy	69
San Diego Gas & Electric Company	76
Pacific Enterprises	82
Southern California Gas Company	88
Notes to Consolidated Financial Statements	94
Glossary	199

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*

*Pacific Enterprises
Southern California Gas Company*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following section of the 2009 Annual Report includes

§ A description of our business

§ An executive summary

§ A discussion and analysis of our operating results for 2007 through 2009

§ 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 included in this Annual Report.

OUR BUSINESS

Sempra Energy is a Fortune 500 energy services holding company whose business units provide electric, natural gas and other energy products and services to their customers. Our operations are divided principally between the Sempra Utilities and Sempra Global. The Sempra Utilities consist of two California regulated public utility companies, 1) San Diego Gas & Electric Company (SDG&E) and 2) Southern California Gas Company (SoCalGas). Sempra Global consists of other businesses engaged in providing energy products and services. (See Figure 1.)

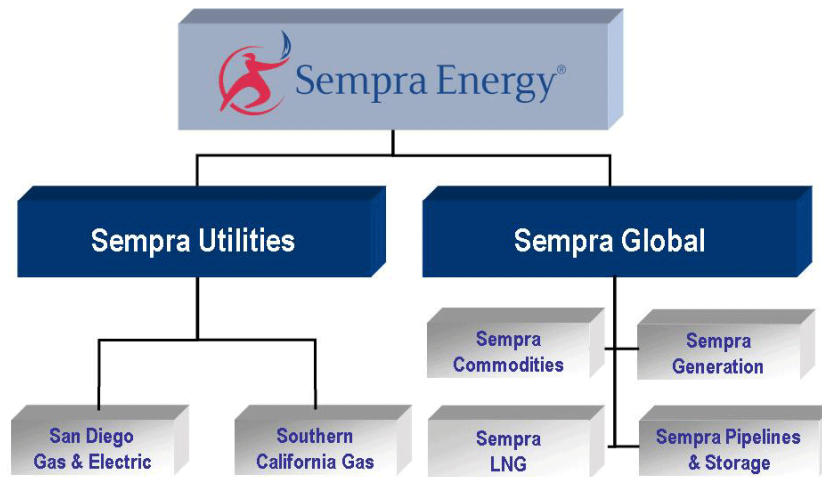


Figure 1: Sempra Energy's Business Units

This report includes information for the following separate registrants:

§ Sempra Energy and its consolidated entities

§ SDG&E

§ Pacific Enterprises (PE), the holding company for SoCalGas

§ SoCalGas

References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, collectively, unless otherwise indicated by its context.

PE's operations consist solely of those of SoCalGas and additional items (e.g., cash, intercompany accounts and equity) attributable to serving as a holding company for SoCalGas.

Below are the summary descriptions of our operating business units.

SEMPRA ENERGY BUSINESS UNITS

SEMPRA 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 3.5 million consumers (1.4 million meters) § Provides natural gas to 3.2 million consumers (845,000 meters)	Serves the county of San Diego, CA 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 20.7 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

The Sempra Utilities consist of SDG&E and SoCalGas.

SDG&E

SDG&E provides electricity to 3.5 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 Palomar and Miramar I and II electric generation facilities and its 20-percent ownership interest in the San Onofre Nuclear Generating Station (SONGS). SDG&E also delivers natural gas through 845,000 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 also has issued publicly held preferred stock. The preferred stock has liquidation preferences totaling \$79 million and represents less than 3% of the ordinary voting power of SDG&E shares.

SDG&E's financial statements include two variable interest entities (VIEs), Otay Mesa Energy Center LLC (Otay Mesa VIE) and Orange Grove Energy L.P. (Orange Grove VIE), as we discuss in Note 1 of the Notes to Consolidated Financial Statements. SDG&E has long-term power purchase agreements with both entities.

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 to 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 20.7 million.

Sempra Energy owns all of the common stock of PE and PE owns all of the common stock of SoCalGas. PE and SoCalGas also have publicly held preferred stock, which represents less than 1% of the ordinary voting power of their shares. The PE and SoCalGas preferred stock have liquidation preferences totaling \$80 million and \$22 million, respectively.

SEMPRA GLOBAL		
	MARKET	GEOGRAPHIC REGION
SEMPRA COMMODITIES Holds an interest in RBS Sempra Commodities LLP, a commodities-marketing business joint venture with The Royal Bank of Scotland (RBS)	§ Natural gas; natural gas liquids § Power § Petroleum and petroleum products § Coal § Emissions § Ethanol § Base metals	§ Global
SEMPRA GENERATION Develops, owns and operates, or holds interests in, electric power plants and energy projects	§ Wholesale electricity	§ U.S.A. § Mexico
SEMPRA PIPELINES & STORAGE Develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities, and natural gas and electric service providers	§ Natural gas § Electricity	§ U.S.A. § Mexico § Argentina § Chile § Peru
SEMPRA LNG Develops, owns and operates receipt terminals for the importation of liquefied natural gas (LNG) and sale of natural gas	§ Liquefied natural gas § Natural gas	§ U.S.A. § Mexico

Sempra Global is a holding company for most of our subsidiaries that are not subject to California utility regulation. Sempra Global's principal business units, which provide energy-related products and services, are

- § Sempra Commodities
- § Sempra Generation
- § Sempra Pipelines & Storage
- § Sempra LNG

A description of each business unit follows.

Sempra Commodities

Sempra Commodities holds our investment in RBS Sempra Commodities LLP (RBS Sempra Commodities), a joint venture with RBS. The partnership was formed on April 1, 2008 from our commodities-marketing businesses previously reported in this business unit. The partnership's commodities-trading businesses serve customers in the global markets for natural gas, natural gas liquids, power, petroleum and petroleum products, coal, emissions, ethanol and base metals. The board of RBS Sempra Commodities is comprised of seven directors, four of whom are representatives of RBS and three of whom are representatives of Sempra Energy. The consent of Sempra Energy is required before the partnership may take certain significant actions, including materially changing the scope of the partnership's businesses and entering into agreements of significant size or duration.

In November 2009, RBS announced its intention to divest its interest in RBS Sempra Commodities following a directive from the European Commission to dispose of certain assets. On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement with J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures), whereby J.P. Morgan Ventures will purchase the following businesses from the joint venture:

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

§ the European power and gas business

§ the investor products business

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

Subject to obtaining various regulatory approvals and other conditions, the transaction is expected to close in the second quarter of 2010. J.P. Morgan Ventures will pay an aggregate purchase price equal to the estimated book value at closing of the businesses purchased, generally computed on the basis of international financial reporting standards (IFRS) (as adopted by the European Union), plus an amount equal to \$468 million. Sempra Energy will be entitled to 53-1/3 percent of the aggregate purchase price, and RBS will be entitled to 46-2/3 percent of the aggregate purchase price. We estimate the proceeds that we receive from this transaction will approximate \$835 million, excluding undistributed partnership earnings through November 2009.

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

We provide further discussion about RBS Sempra Commodities and the pending transaction with J.P. Morgan Ventures in Notes 3, 4, 6 and 20 of the Notes to Consolidated Financial Statements. Sempra Commodities also includes the operating results of Sempra Rockies Marketing, which holds firm service capacity on the Rockies Express Pipeline.

Sempra Generation

Sempra Generation develops, owns and operates, or holds interests in, electric power plants serving wholesale electricity markets in North America. It sells electricity under long-term contracts and into the spot market and other competitive markets. Sempra Generation purchases natural gas to fuel its natural gas-fired power plants and may also purchase electricity in the open market to satisfy its contractual obligations. Sempra Generation also develops, owns and invests in renewable energy generation projects.

The following table provides information about each of Sempra Generation's power plants. Approximately 75% and 60% of this generating capacity is under long-term contracts with the California Department of Water Resources (DWR) and other parties through 2010 and 2011, respectively.

SEMPRA GENERATION POWER PLANTS

Capacity in Megawatts (MW)

Power Plant	Maximum Generating Capacity	First In Service	Location
Mesquite Power	1,250	2003	Arlington, AZ
Termoeléctrica de Mexicali	625	2003	Mexicali, Baja California, Mexico
El Dorado	490 (1)	2000	Boulder City, NV
Elk Hills (50% owned)	275 (2)	2003	Bakersfield, CA
Fowler Ridge II Wind Farm (50% owned)	100 (2)	2009	Benton County, IN
Total MW in operation	2,740		

(1) Includes 10 MW of solar generating capacity

(2) Sempra Generation's share

Sempra Generation's three 100%-owned facilities, Mesquite Power, Termoeléctrica de Mexicali and El Dorado, sell the majority of their output under long-term purchased-power contracts. The largest contract is with the DWR and provides for 1,200 MW to be supplied during all hours and an additional 400 MW during on-peak hours. This contract ends September 30, 2011. Sempra Generation also has other purchased-power contracts, primarily with RBS Sempra Commodities, to sell varying amounts of power through 2012. In addition to these contracts, Sempra Generation has a purchased-power contract expiring in December 2010 that permits the call for delivery of up to 300 MW of power, both during on-peak and off-peak hours, at a predetermined price. The remaining output of our 100%-owned facilities (excluding the El Dorado solar facility) is available to be sold into energy markets on a day-to-day basis.

The El Dorado facility (excluding the solar facility) will be sold at book value to SDG&E on October 1, 2011, which coincides with the end of the DWR contract.

Sempra Generation has a 20-year power purchase agreement with Pacific Gas and Electric (PG&E) for all of the output of its 10-MW El Dorado Energy Solar plant (El Dorado Solar).

Sempra Generation also has a 50% equity interest in Elk Hills, a merchant plant located in Bakersfield, California. Elk Hills offers its output into the California market on a daily basis.

In 2009, Sempra Generation invested \$235 million and became an equal partner with BP Wind Energy, a wholly owned subsidiary of BP p.l.c., in the development of the 200-MW Fowler Ridge II Wind Farm (Fowler Ridge II) northwest of Indianapolis, Indiana. The project uses 133 General Electric wind turbines, each with the ability to generate 1.5 MW. Fowler Ridge II went into full commercial operation in December 2009. The project's entire power output has been sold under four long-term contracts, each for 50 MW and 20-year terms. Our investment in Fowler Ridge II is accounted for as an equity method investment.

Sempra Pipelines & Storage

Sempra Pipelines & Storage develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities in the United States and Mexico, and in companies that provide natural gas or electric services in Argentina, Chile, Mexico and Peru. Sempra Pipelines & Storage is currently pursuing the sale of its interests in the Argentine utilities, which we discuss further in Note 4 of the Notes to Consolidated Financial Statements.

Sempra Pipelines & Storage's natural gas distribution utility that operates in three separate areas in Mexico had a customer count of 91,300 and sales volume of 52 million cubic feet per day in 2009. Sempra Pipelines & Storage's pipeline system in Mexico had a contracted capacity for up to 2,600 million cubic feet per day in 2009.

Sempra Pipelines & Storage also owns and operates, or holds interests in, natural gas underground storage and related pipeline facilities in Alabama and Mississippi (Sempra Midstream) and owns Mobile Gas Service Corporation (Mobile Gas), a small regulated natural gas distribution utility in Southwest Alabama. These businesses were formerly the operations of EnergySouth, which we acquired in October 2008.

Sempra Pipelines & Storage, Kinder Morgan Energy Partners, L.P. (KMP) and ConocoPhillips jointly own, through Rockies Express Pipeline LLC (Rockies Express), a natural gas pipeline, the Rockies Express Pipeline (REX), that links producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Our participation in the pipeline is 25 percent. Sempra Rockies Marketing, part of our Sempra Commodities segment, has an agreement with Rockies Express for 200 million cubic feet per day of capacity on the REX, which has a total capacity of 1.8 billion cubic feet (Bcf) per day. Sempra Rockies Marketing has released a portion of its capacity to RBS Sempra Commodities, and RBS Sempra Commodities has assisted Sempra Rockies Marketing with marketing the remaining capacity. REX-West, the segment of the pipeline which extends 713 miles from the Cheyenne Hub to Audrain County in Missouri, began interim service in January and full service in May 2008. REX-East, which extends 638 miles from Audrain County to Clarington in Ohio, was completed in November 2009.

Sempra LNG

Sempra LNG develops, owns and operates receipt terminals for importing LNG, and has supply and marketing agreements to purchase LNG and sell natural gas. Sempra LNG utilizes its LNG receipt terminals by entering into long-term firm capacity service agreements when able to do so. Under these agreements, customers pay Sempra LNG capacity reservation fees to use its facilities to receive, store and regasify the customer's LNG. Sempra LNG also may enter into short-term and/or long-term supply agreements to purchase LNG to be received, stored and regasified at its terminals for sale to other parties.

Sempra LNG's Energía Costa Azul LNG receipt terminal in Baja California, Mexico began commercial operations in May 2008 and is capable of processing 1 Bcf of natural gas per day. The Energía Costa Azul facility currently generates revenue under a capacity services agreement with Shell México Gas Natural (Shell), expiring in 2028, that permits Shell to use one-half of the terminal's capacity. In April 2009, Shell assigned a portion of its terminal capacity at Energía Costa Azul to Gazprom Marketing & Trading Mexico, transferring all further rights and obligations with respect to the assigned capacity.

Sempra LNG has an LNG purchase agreement with Tangguh PSC Contractors (Tangguh PSC) for the supply of the equivalent of 500 million cubic feet of natural gas per day from Tangguh PSC's Indonesian liquefaction facility to the Energía Costa Azul receipt terminal at a price based on the Southern California border index price for natural gas. Sempra LNG has a 15-year contract to sell an average of approximately 150 million cubic feet per day of natural gas to Mexico's national electric company, Comisión Federal de Electricidad (CFE) at prices that are based on the Southern California border index price. If natural gas volumes received from Tangguh PSC are not sufficient to satisfy the commitment to CFE, Sempra LNG may purchase natural gas from RBS Sempra Commodities. Sempra LNG also has an agreement with RBS Sempra Commodities for RBS Sempra Commodities to market any volumes purchased from Tangguh PSC that are not sold to the CFE.

A nitrogen-injection facility at Energía Costa Azul placed in service by Sempra LNG in December 2009 allows the terminal to process LNG cargoes from a wider variety of sources and provides additional revenue from payments for capacity reservation fees and fees for nitrogen injection services.

Sempra LNG's Cameron LNG receipt terminal in Hackberry, Louisiana, began commercial operations in July 2009 and is capable of processing 1.5 Bcf of natural gas per day. Cameron LNG generates revenue under a capacity services agreement for approximately 600 million cubic feet of natural gas per day through 2029. Sempra LNG also has a short-term LNG purchase agreement with Ras Laffan Liquefied Natural Gas Company Limited (RasGas) for the supply of up to 32 cargoes during 2010, at RasGas' option. The purchase price of cargoes from RasGas is based on market index prices located in the U.S. Gulf of Mexico. Sempra LNG has an agreement to sell natural gas to RBS Sempra Commodities at the Cameron Interstate Pipeline.

Sempra LNG also owns property in Port Arthur, Texas, that it is evaluating for potential development.

REGULATION OF SEMPRA UTILITIES AND OTHER BUSINESS UNITS

The Sempra Utilities are regulated by federal, state and local governmental agencies. The primary regulatory agency is the California Public Utilities Commission (CPUC). The CPUC regulates the Sempra 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 regulates SONGS, in which SDG&E owns a 20-percent interest. Municipalities and other local authorities regulate the location of utility assets, including natural gas pipelines and electric lines. Sempra Energy's other business units are also regulated by the FERC, various state commissions, local governmental entities, and other similar authorities in countries other than the United States.

EXECUTIVE SUMMARY

BUSINESS STRATEGY

Our ongoing focus is to enhance shareholder value and meet customer needs by developing and operating a stable portfolio of energy businesses with long-term, predictable cash flows.

The key components of our strategy include the following:

- § development of natural gas and renewable-energy infrastructure;
- § investment in our utilities; and
- § marketing energy commodities in North America.

We have based our strategy on a market view that recognizes that:

- § current and emerging state and federal policies support cleaner forms of energy
- § policy trends point toward three business priorities:

1. cleaner fuels
 - § natural gas
 - § renewables
2. enabling infrastructure
 - § natural gas pipelines, storage and LNG receipt terminals
 - § electric transmission and advanced meters
3. managing volatility
 - § focus on risk management
 - § natural gas storage at a premium

As we execute our strategy, we remain focused on the escalating concerns about climate change and the future regulation of greenhouse gases. Our focus on clean fuels and energy efficiency is a sustainable model that results in a smaller carbon footprint.

KEY ISSUES IN 2009

Below are the key issues that affected our business in 2009; some of these issues may continue to affect our future results. Each issue includes the page number you may reference for additional details.

- § RBS, following a directive from the European Commission, announced its intention to divest its 51-percent share of RBS Sempra Commodities (5).
- § Sempra LNG's Cameron LNG receipt terminal began commercial operations in July 2009 (7).
- § Sempra LNG's Energía Costa Azul nitrogen-injection facility was placed in service in December 2009 (7).
- § The Rockies Express-East pipeline was completed in November 2009 (7).
- § Sempra Pipelines & Storage completed its Cameron Interstate Pipeline project in June 2009 (32).
- § Sempra Generation invested \$235 million and became an equal partner in Fowler Ridge II in 2009 (6).
- § The Otay Mesa Energy Center commenced commercial operations in October 2009 (103).
- § SDG&E installed approximately 355,000 advanced meters through December 31, 2009 and is on schedule to complete the full installation of approximately 1.4 million electric and 850,000 natural gas meters by the end of 2011 (179).
- § We increased quarterly dividends on our common shares to \$0.39 per share (\$1.56 per share annually) (37).
- § We recorded an asset write-off related to the Liberty Gas Storage (Liberty) project that reduced earnings by \$64 million (103).
- § SDG&E entered into agreements to settle a significant portion of claims related to the 2007 California wildfire litigation; however, a substantial number of unresolved claims remain (181).

RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

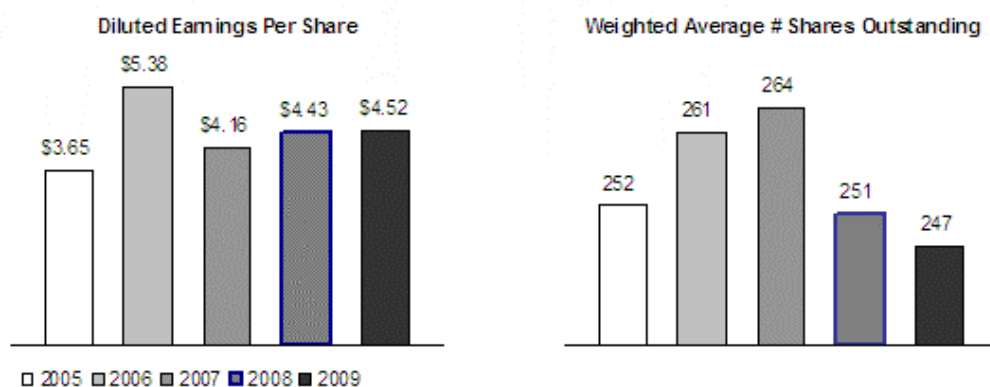
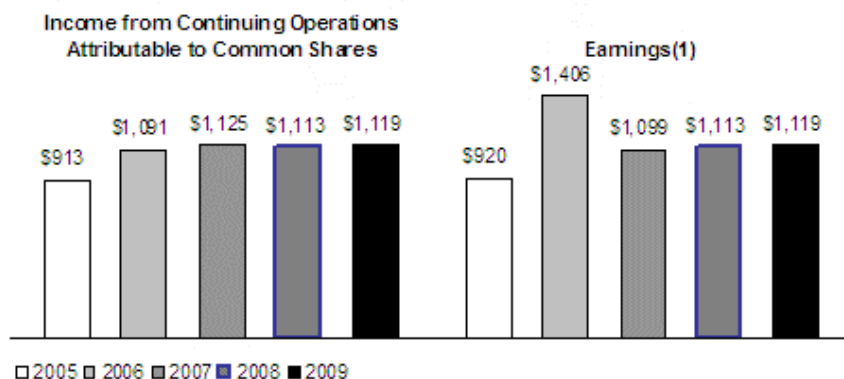
- § Overall results of our operations and factors affecting those results
- § Our business unit results
- § Significant changes in revenues, costs and earnings between periods

OVERALL RESULTS OF OPERATIONS OF SEMPRA ENERGY AND FACTORS AFFECTING THE RESULTS

The graphs below show our overall operations from 2005 to 2009.

OVERALL OPERATIONS OF SEMPRA ENERGY FROM 2005 TO 2009

(Dollars and shares in millions, except per share amounts)



(1) Earnings for 2006 included \$315 million in after-tax income from discontinued operations, primarily due to asset sales.

Our 2009 income from continuing operations attributable to common shares increased from 2008 due to:

- § improved results at Sempra LNG; and
- § higher earnings at the Sempra Utilities; **offset by**
- § lower earnings at Sempra Generation; and
- § higher losses at Parent and Other.

Improved operating results at Sempra Pipelines & Storage were negatively impacted by an after-tax write-off of \$64 million related to the Liberty project in 2009.

Diluted earnings per share in 2009 increased by \$0.09 per share, primarily from the reduction in shares outstanding from our \$1 billion share repurchase in 2008 (\$0.07 per share) and as a result of our increased earnings (\$0.02 per share).

Our 2008 income from continuing operations attributable to common shares decreased due to:

- § lower earnings at Sempra Commodities due to our reduced ownership interest in the business;
- and
- § higher net losses at Parent and Other; **offset by**
- § improved results at the Sempra Utilities, Sempra Generation and Sempra Pipelines & Storage.

Our earnings in 2007 included losses from discontinued operations of \$26 million.

Diluted earnings per share in 2008 increased by \$0.27 per share, primarily as a result of the reduction in shares outstanding from our \$1 billion share repurchase and from increased earnings. The impact from the share repurchase was a positive \$0.20 per share.

The following table shows our earnings (losses) by business unit, which we discuss below in "Business Unit Results."

SEMPRA ENERGY EARNINGS (LOSSES) BY BUSINESS UNIT 2007-2009									
<i>(Dollars in millions)</i>									
	Years ended December 31,								
	2009		2008		2007				
Sempra Utilities:									
SDG&E(1)	\$	344	31 %	\$	339	31 %	\$	283	25 %
SoCalGas(1)		273	24		244	22		230	21
Sempra Global:									
Sempra Commodities(2)		345	31		345	31		499	45
Sempra Generation		162	15		222	20		162	15
Sempra Pipelines & Storage		101	9		106	9		64	6
Sempra LNG		16	1		(46)	(4)		(46)	(4)
Parent and other(3)		(122)	(11)		(97)	(9)		(67)	(6)
Income from continuing operations attributable to common shares		1,119	100		1,113	100		1,125	102
Discontinued operations, net of income tax		-	-		-	-		(26)	(2)
Earnings	\$	1,119	100 %	\$	1,113	100 %	\$	1,099	100 %

(1) After preferred dividends.

(2) Includes our portion of RBS Sempra Commodities' joint venture earnings since the formation of the joint venture on April 1, 2008, and 100% of the commodities-marketing businesses prior to April 1, 2008. Also includes the operating results of Sempra Rockies Marketing, as well as interest, income taxes, cost allocations and other items associated with the joint venture.

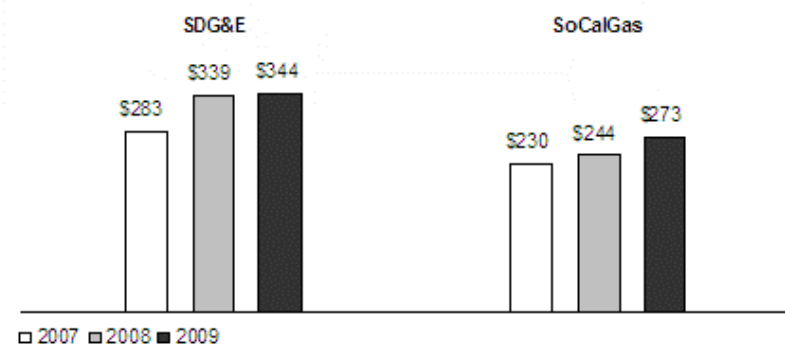
(3) Includes after-tax interest expense (\$141 million in 2009, \$85 million in 2008 and \$82 million in 2007), intercompany eliminations recorded in consolidation and certain corporate costs incurred at Sempra Global.

BUSINESS UNIT RESULTS

The following section is a discussion of earnings (losses) by Sempra Energy business unit, as it appears in the table above.

EARNINGS BY BUSINESS UNIT – SEMPRA UTILITIES

(Dollars in millions)



SDG&E

Our SDG&E business unit recorded earnings of:

§ \$344 million in 2009 (\$349 million before preferred dividends)

§ \$339 million in 2008 (\$344 million before preferred dividends)

§ \$283 million in 2007 (\$288 million before preferred dividends)

In 2009, the increase of \$5 million (1%) was due to:

§ \$26 million net favorable impact from the resolution of litigation in 2009 compared to an increase in litigation reserves in 2008;

§ \$21 million higher CPUC authorized margin in excess of higher operation and maintenance expenses; and

§ \$8 million higher electric transmission margin; **offset by**

§ \$21 million due to regulatory awards in 2008;

§ \$9 million higher liability insurance premiums for wildfire coverage;

§ \$7 million from the resolution of regulatory matters in 2008 that favorably impacted earnings;

§ \$6 million lower favorable impact from the resolution of prior years' income tax issues; and

§ \$6 million higher net interest expense.

In 2008, the increase of \$56 million (20%) was due to:

§ \$62 million increased CPUC authorized margin in excess of higher operation and maintenance expenses;

§ \$14 million favorable effect from lower income tax rates on current operating activity in 2008 from an increase in tax deductions, as we discuss in "Income Taxes" below;

§ \$8 million higher regulatory awards in 2008; and

§ \$6 million higher electric transmission earnings in 2008 due to a higher rate base; **offset by**

§ \$19 million lower favorable resolution of regulatory matters in 2008 (\$7 million in 2008 compared to \$26 million in 2007); and

§ \$18 million due to higher litigation expenses in 2008 (\$25 million in 2008 compared to \$7 million in 2007).

SoCalGas

Our SoCalGas business unit recorded earnings of:

§ \$273 million in 2009 (\$274 million before preferred dividends)

§ \$244 million in 2008 (\$245 million before preferred dividends)

§ \$230 million in 2007 (\$231 million before preferred dividends)

In 2009, the increase of \$29 million (12%) was due to:

§ \$25 million higher CPUC authorized margin in excess of higher operation and maintenance expenses;

§ \$12 million from a lower effective tax rate (excluding the impact of the resolution of prior years' income tax issues);

§ \$7 million primarily due to litigation reserves recorded in 2008; and

§ \$3 million higher noncore natural gas storage earnings; **offset by**

§ \$7 million from the resolution of a regulatory matter in 2008 that favorably impacted earnings;

§ \$7 million higher net interest expense; and

§ \$4 million lower favorable impact from the resolution of prior years' income tax issues (\$1 million unfavorable in 2009 compared to \$3 million favorable in 2008).

In 2008, the increase of \$14 million (6%) was due to:

§ \$18 million due to a lower effective tax rate, as we discuss in "Income Taxes" below;

§ \$7 million favorable resolution of a regulatory matter in 2008;

§ \$7 million from increased CPUC authorized margin in excess of higher operation and maintenance expenses; and

§ \$3 million higher regulatory awards (\$9 million in 2008 compared to \$6 million in 2007); **offset by**

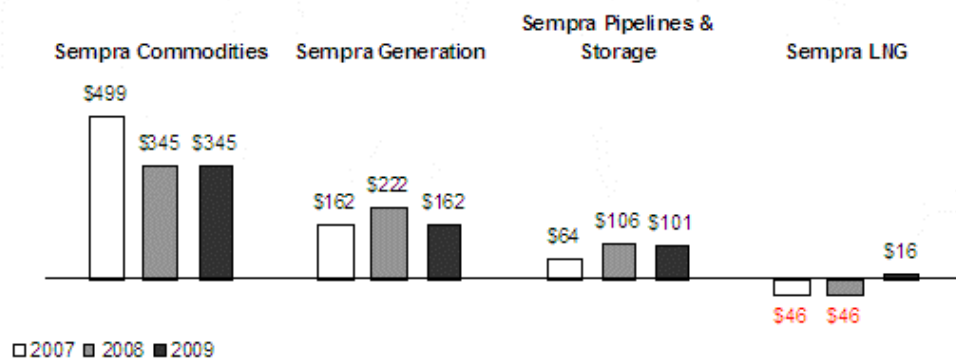
§ \$8 million increase in litigation expenses;

§ \$7 million lower noncore natural gas storage revenue in 2008 due to a new earnings sharing mechanism in effect for 2008 associated with the 2008 Biennial Cost Allocation Proceeding decision (\$9 million in 2008 compared to \$16 million in 2007), as we discuss in Note 16 of the Notes to Consolidated Financial Statements; and

§ \$5 million higher bad debt expense in 2008.

EARNINGS (LOSSES) BY BUSINESS UNIT – SEMPRAS GLOBAL

(Dollars in millions)



Sempra Commodities

Our Sempra Commodities business unit recorded earnings of:

- § \$345 million in 2009
- § \$345 million in 2008
- § \$499 million in 2007

Results for 2009 and the second through the fourth quarters of 2008 primarily represent our equity earnings from RBS Sempra Commodities, the joint venture formed on April 1, 2008, as well as other items discussed below. Results for 2007 and the first quarter of 2008 represent 100% of the commodities-marketing businesses' earnings until the formation of the joint venture.

The results in 2009 included a \$9 million improvement in Sempra Rockies Marketing and reflect our reduced ownership interest in the commodities-marketing businesses starting in April 2008. Results in 2008 included:

- § a \$67 million gain on the transaction to form the joint venture with RBS; **offset by**
- § \$34 million of expenses, primarily charges for litigation and an unfavorable impact of prior years' income tax issues; and
- § a \$17 million write-down related to a counterparty credit issue.

The decrease in 2008 compared to 2007 of \$154 million (31%) was due to our decreased ownership interest in the business, offset by the gain on the transaction with RBS.

Sempra Generation

Sempra Generation recorded earnings of:

- § \$162 million in 2009
- § \$222 million in 2008
- § \$162 million in 2007

The decrease in 2009 of \$60 million (27%) was due to:

- § a \$31 million reduction in earnings from the effects of lower gas prices in 2009;
- § \$4 million income tax expense in 2009 related to Mexican currency translation and inflation adjustments compared to a \$14 million income tax benefit in 2008; and
- § \$9 million solar investment tax credits in 2008.

The increase in 2008 of \$60 million (37%) was due to:

§ \$37 million higher earnings from operations, primarily due to scheduled plant maintenance in 2007;

§ \$16 million lower income tax expense related to Mexican currency translation and inflation adjustments; and

§ \$9 million solar investment tax credits in 2008.

Sempra Pipelines & Storage

Our Sempra Pipelines & Storage business unit recorded earnings of:

§ \$101 million in 2009

§ \$106 million in 2008

§ \$64 million in 2007

The decrease in 2009 of \$5 million (5%) was due to:

§ \$64 million lower earnings from a write-off of assets at the Liberty project; **offset by**

§ \$22 million lower taxes, primarily due to a favorable impact from the resolution of prior years' income tax issues (\$13 million favorable in 2009 compared to \$9 million unfavorable in 2008);

§ \$17 million higher earnings from a full year of LNG-related pipeline operations in Mexico, which commenced in the second quarter of 2008;

§ \$12 million higher earnings from its domestic natural gas distribution, pipelines and storage assets; and

§ \$8 million higher earnings from its investments in South America, primarily due to improved operating results.

The increase of \$42 million (66%) in 2008 was due to:

§ \$30 million from Rockies Express-West, which began operations in the first quarter of 2008; and

§ \$18 million of higher earnings from the commencement of LNG-related pipeline operations in Mexico in the second quarter of 2008.

Sempra LNG

Sempra LNG recorded earnings (losses) of:

§ \$16 million in 2009

§ \$(46) million in 2008

§ \$(46) million in 2007

The improvement in earnings in 2009 of \$62 million (135%) was due to:

§ \$72 million higher earnings from the start-up of marketing and terminal operations, of which \$37 million relates to revenues related to contractual customer obligations for non-delivery of cargoes and tax benefits from the reallocation of certain intercompany expenses, neither of which are expected to recur over the long term; **offset by**

§ a \$10 million after-tax cash payment received in 2008 for the early termination of a capacity agreement for the Cameron LNG receipt terminal.

Although losses remained the same as 2007, 2008 included the following items compared to 2007:

§ \$15 million lower mark-to-market losses related to a natural gas marketing agreement with RBS Sempra Commodities; and

§ a \$10 million after-tax cash payment received for the early termination of a capacity agreement for the Cameron LNG receipt terminal; **offset by**

§ \$22 million higher general and administrative and operating expenses, including \$13 million of costs for LNG supplies for the Energía Costa Azul LNG receipt terminal.

Parent and Other

Losses for Parent and Other were

§ \$(122) million in 2009

§ \$(97) million in 2008

§ \$(67) million in 2007

The increase in losses in 2009 of \$25 million (26%) was primarily due to:

§ \$64 million higher interest expense primarily from long-term debt issued in 2008 and 2009, partially offset by \$18 million reduced interest expense on commercial paper borrowings due to lower interest rates;

§ \$25 million in lower benefits from the resolution of prior years' income tax issues, primarily due to \$19 million of benefits in 2008 compared to a \$6 million expense in 2009;

§ \$7 million in lower consolidated and parent tax benefits compared with 2008; and

§ \$10 million favorable impact of an interest adjustment in 2008 related to litigation reserves;
offset by

§ \$18 million investment gains in 2009 on dedicated assets in support of our executive retirement and deferred compensation plans due to improved market conditions, compared to investment losses of \$23 million in 2008. These amounts are net of the increase in deferred compensation liability associated with the investments; and

§ \$19 million lower general and administrative expenses.

The increase in losses in 2008 of \$30 million (45%) was primarily due to:

§ \$23 million of investment losses in 2008 compared to \$6 million of gains in 2007 on dedicated assets in support of our executive retirement and deferred compensation plans due to market declines in 2008. This amount is net of the reduction in deferred compensation liability associated with the investments;

§ \$14 million gain from interest rate swaps in 2007; and

§ \$8 million Mexican peso exchange losses, net of lower Mexican currency translation and inflation tax adjustments; **offset by**

§ \$13 million lower income tax expense primarily from the higher favorable resolution of prior years' income tax issues in 2008; and

§ \$10 million lower interest expense related to litigation reserves in 2008.

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, PE and SoCalGas.

Sempra Utilities Revenues

Sempra Utilities revenues are comprised of natural gas revenues at SDG&E and SoCalGas, and electric revenues at SDG&E. Intercompany revenues included in the separate revenues of each utility are eliminated in the Sempra Energy Consolidated Statements of Operations.

The current regulatory framework permits the cost of natural gas purchased for core customers (primarily residential and small commercial and industrial customers) to be passed on to customers substantially as incurred. However, SoCalGas' Gas Cost Incentive Mechanism (GCIM) 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 market-based monthly benchmarks. This mechanism permits full recovery of costs incurred when average purchase costs are within a price range around a monthly benchmark price. Any higher costs incurred or savings realized outside this range are shared between the core customers and SoCalGas. Through March 31, 2008, when SoCalGas assumed the purchasing for SDG&E's core customer natural gas requirements on a combined portfolio basis, SDG&E had a similar incentive mechanism that allowed cost sharing. We provide further discussion in Notes 1 and 16 of the Notes to Consolidated Financial Statements.

Sempra Utilities: Natural Gas Revenues and Cost of Natural Gas

The tables below show natural gas revenues for Sempra Energy, SDG&E and SoCalGas. The Sempra Energy Consolidated amounts reflect SDG&E and SoCalGas revenues, net of intercompany transactions. Because the cost of natural gas is recovered in rates, changes in the cost are reflected in the changes in revenues.

SEMPRA ENERGY CONSOLIDATED:
NATURAL GAS SALES AND TRANSPORTATION 2007-2009
(Volumes in billion cubic feet, dollars in millions)

Customer class	Natural Gas Sales		Transportation		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
2009:						
Residential	264	\$ 2,336	1	\$ 3	265	\$ 2,339
Commercial and industrial	116	774	271	227	387	1,001
Electric generation plants	-	-	265	67	265	67
Wholesale	-	-	17	4	17	4
	<u>380</u>	<u>\$ 3,110</u>	<u>554</u>	<u>\$ 301</u>	<u>934</u>	<u>\$ 3,411</u>
Other revenues						105
Balancing accounts(1)						285
Total						<u>\$ 3,801</u>
2008:						
Residential	271	\$ 3,385	1	\$ 4	272	\$ 3,389
Commercial and industrial	120	1,318	282	198	402	1,516
Electric generation plants	-	-	300	106	300	106
Wholesale	-	-	18	6	18	6
	<u>391</u>	<u>\$ 4,703</u>	<u>601</u>	<u>\$ 314</u>	<u>992</u>	<u>\$ 5,017</u>
Other revenues						146
Balancing accounts(1)						256
Total						<u>\$ 5,419</u>
2007:						
Residential	277	\$ 3,065	1	\$ 5	278	\$ 3,070
Commercial and industrial	127	1,159	282	215	409	1,374
Electric generation plants	-	1	264	112	264	113
Wholesale	-	-	19	8	19	8
	<u>404</u>	<u>\$ 4,225</u>	<u>566</u>	<u>\$ 340</u>	<u>970</u>	<u>\$ 4,565</u>
Other revenues						90
Balancing accounts(1)						214
Total						<u>\$ 4,869</u>

(1) We discuss balancing accounts and their effects in Note 1 of the Notes to Consolidated Financial Statements.

In 2009, our natural gas revenues decreased by \$1.6 billion (30%) to \$3.8 billion, and the cost of natural gas decreased by \$1.7 billion (53%) to \$1.5 billion. The decrease in revenues was primarily due to:

- § the decrease in cost of natural gas, which was caused primarily by lower natural gas prices; and
- § \$24 million lower franchise fees at SoCalGas; **offset by**
- § \$80 million higher recovery of CPUC-authorized costs, which revenues are fully offset in operation and maintenance expenses; and
- § \$53 million higher authorized base margin at SoCalGas, in accordance with the CPUC's 2008 General Rate Case (2008 GRC) decision.

In 2008, our natural gas revenues increased by \$550 million (11%) to \$5.4 billion, and the cost of natural gas increased by \$481 million (17%) to \$3.2 billion. The increase in revenues was primarily due to:

- § the increase in cost of natural gas, which was caused primarily by higher natural gas prices;
- § \$27 million higher authorized base margin in accordance with the CPUC's 2008 GRC decision;
- § \$24 million due to revenue sharing in 2007 at SoCalGas. Effective with the adoption of the 2008 GRC, the Sempra Utilities are no longer subject to the performance-based regulation that required this revenue sharing; and
- § \$12 million favorable resolution of a regulatory matter in 2008; **offset by**
- § \$11 million lower noncore natural gas storage revenue in 2008.

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

SDG&E: NATURAL GAS SALES AND TRANSPORTATION 2007-2009*(Volumes in billion cubic feet, dollars in millions)*

Customer class	Natural Gas Sales		Transportation		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
2009:						
Residential	30	\$ 304	-	\$ -	30	\$ 304
Commercial and industrial	15	100	7	10	22	110
Electric generation plants	-	-	65	19	65	19
	45	\$ 404	72	\$ 29	117	433
Other revenues						33
Balancing accounts						24
Total(1)						\$ 490
2008:						
Residential	31	\$ 428	-	\$ -	31	\$ 428
Commercial and industrial	16	174	7	9	23	183
Electric generation plants	-	-	68	26	68	26
	47	\$ 602	75	\$ 35	122	637
Other revenues						26
Balancing accounts						26
Total(1)						\$ 689
2007:						
Residential	32	\$ 405	-	\$ -	32	\$ 405
Commercial and industrial	16	160	5	7	21	167
Electric generation plants	-	1	60	40	60	41
	48	\$ 566	65	\$ 47	113	613
Other revenues						13
Balancing accounts						32
Total(1)						\$ 658

(1) Includes sales to affiliates of \$1 million in 2009, \$2 million in 2008 and \$3 million in 2007.

In 2009, SDG&E's natural gas revenues decreased by \$199 million (29%) to \$490 million, and the cost of natural gas decreased by \$209 million (50%) to \$206 million. The decrease in natural gas revenues was primarily due to the decrease in cost of natural gas caused by lower natural gas prices, as we discuss below.

In 2008, SDG&E's natural gas revenues increased by \$31 million (5%) to \$689 million, and the cost of natural gas increased by \$23 million (6%) to \$415 million. The increases were primarily due to higher natural gas prices.

The average cost of natural gas was \$4.61 per thousand cubic feet (Mcf) for 2009, \$8.88 for 2008 and \$8.06 for 2007. In 2009, the 48-percent decrease of \$4.27 per Mcf resulted in lower revenues and cost of \$190 million compared to 2008. In 2008, the 10-percent increase of \$0.82 per Mcf resulted in higher revenues and cost of \$38 million compared to 2007.

SOCALGAS: NATURAL GAS SALES AND TRANSPORTATION 2007-2009*(Volumes in billion cubic feet, dollars in millions)*

Customer class	Natural Gas Sales		Transportation		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
2009:						
Residential	234	\$ 2,032	1	\$ 3	235	\$ 2,035
Commercial and industrial	101	674	264	219	365	893
Electric generation plants	-	-	200	48	200	48
Wholesale	-	-	141	13	141	13
	335	\$ 2,706	606	\$ 283	941	2,989
Other revenues						105
Balancing accounts						261
Total(1)						\$ 3,355
2008:						
Residential	240	\$ 2,957	1	\$ 4	241	\$ 2,961
Commercial and industrial	104	1,144	275	189	379	1,333
Electric generation plants	-	-	232	80	232	80
Wholesale	-	-	146	22	146	22
	344	\$ 4,101	654	\$ 295	998	4,396
Other revenues						142
Balancing accounts						230
Total(1)						\$ 4,768
2007:						
Residential	245	\$ 2,660	1	\$ 5	246	\$ 2,665

Commercial and industrial	111	999	277	208	388	1,207
Electric generation plants	-	-	204	72	204	72
Wholesale	-	-	142	59	142	59
	356 \$	3,659	624 \$	344	980	4,003
Other revenues						97
Balancing accounts						182
Total(1)					\$	4,282

(1) Includes sales to affiliates of \$43 million in 2009, \$36 million in 2008 and \$68 million in 2007.

In 2009, SoCalGas' natural gas revenues decreased by \$1.4 billion (30%) to \$3.4 billion, and the cost of natural gas decreased by \$1.5 billion (53%) to \$1.3 billion. The decrease in revenues was primarily due to:

§ the decrease in cost of natural gas, which was caused primarily by lower natural gas prices, as we discuss below; and

§ \$24 million lower franchise fees; **offset by**

§ \$74 million higher recovery of CPUC-authorized costs, which revenues are fully offset in operation and maintenance expenses; and

§ \$53 million higher authorized base margin in accordance with the CPUC's 2008 GRC decision.

In 2008, SoCalGas' natural gas revenues increased by \$486 million (11%) to \$4.8 billion, and the cost of natural gas increased by \$421 million (17%) to \$2.8 billion. The increase in revenues in 2008 was primarily due to:

- § the increase in cost of natural gas, which was caused primarily by higher natural gas prices;
- § \$24 million higher authorized base margin in accordance with the CPUC's 2008 GRC decision;
- § \$24 million due to revenue sharing in 2007. Effective with the adoption of the 2008 GRC, SoCalGas is no longer subject to the performance-based regulation that required this revenue sharing;
- § \$12 million favorable resolution of a regulatory matter in 2008; and
- § \$6 million higher regulatory awards; **offset by**
- § \$11 million lower noncore natural gas storage revenue in 2008.

The average cost of natural gas was \$4.00 per Mcf for 2009, \$8.26 for 2008 and \$6.81 for 2007. In 2009, the 52-percent decrease of \$4.26 per Mcf resulted in lower revenues and cost of \$1.4 billion compared to 2008. In 2008, the 21-percent increase of \$1.45 per Mcf resulted in higher revenues and cost of \$499 million compared to 2007.

Sempra Utilities: Electric Revenues and Cost of Electric Fuel and Purchased Power

The table below shows electric revenues for Sempra Energy and SDG&E. Sempra Energy Consolidated amounts are net of intercompany transactions. Because the cost of electricity is substantially recovered in rates, changes in the cost are reflected in the changes in revenues.

ELECTRIC DISTRIBUTION AND TRANSMISSION 2007-2009

(Volumes in millions of kilowatt-hours, dollars in millions)

Customer class	2009		2008		2007	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Sempra Energy Consolidated:						
Residential	7,536	\$ 1,041	7,698	\$ 976	7,520	\$ 980
Commercial	7,061	890	7,254	843	7,154	852
Industrial	2,275	236	2,340	214	2,264	228
Direct access	3,119	106	3,235	101	3,220	118
Street and highway lighting	110	12	106	12	107	12
	20,101	2,285	20,633	2,146	20,265	2,190
Other revenues		132		145		161
Balancing accounts		2		262		(167)
Total		\$ 2,419		\$ 2,553		\$ 2,184
SDG&E:						
Residential	7,536	\$ 1,041	7,698	\$ 976	7,520	\$ 980
Commercial	7,061	890	7,254	843	7,154	852
Industrial	2,285	238	2,351	215	2,275	229
Direct access	3,119	106	3,235	101	3,220	118
Street and highway lighting	110	12	106	12	107	12
	20,111	2,287	20,644	2,147	20,276	2,191
Other revenues		137		153		170
Balancing accounts		2		262		(167)
Total(1)		\$ 2,426		\$ 2,562		\$ 2,194

(1) Includes sales to affiliates of \$7 million in 2009, \$9 million in 2008 and \$10 million in 2007.

In 2009, electric revenues decreased by \$134 million (5%) at Sempra Energy Consolidated and \$136 million (5%) at SDG&E to \$2.4 billion, and the cost of electric fuel and purchased power decreased by \$228 million (25%) to \$672 million. The decreased revenues in 2009 were primarily due to:

- § the decrease in cost of electric fuel and purchased power resulting from a net decrease in power procurement costs, primarily from lower prices and volumes; and
- § \$36 million lower regulatory awards; offset by
- § \$54 million higher authorized base margin on electric generation and distribution;

§ \$35 million higher recovery of CPUC-authorized costs, which revenues are fully offset in operation and maintenance expenses; and

§ \$32 million higher authorized transmission margin.

In 2008, electric revenues increased by \$369 million (17%) at Sempra Energy Consolidated and \$368 million (17%) at SDG&E to \$2.6 billion, and the cost of electric fuel and purchased power increased by \$201 million (29%) to \$900 million. The increased revenues in 2008 were primarily due to:

§ the increase in cost of electric fuel and purchased power resulting from an increase in power procurement costs, both from higher prices and volumes;

§ \$107 million higher authorized base margin on electric generation and distribution;

§ \$55 million higher recovery of CPUC-authorized costs, which revenues are fully offset in operation and maintenance expenses;

§ \$12 million higher regulatory awards; and

§ \$8 million higher authorized transmission margin; offset by

§ \$22 million from the favorable resolution of a regulatory matter in 2007.

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 Note 1 of the Notes to Consolidated Financial Statements.

Sempra Global and Parent: Revenues and Cost of Sales

The table below shows Sempra Global and Parent's Revenues and Cost of Sales.

SEMPRA GLOBAL AND PARENT: REVENUES AND COST OF SALES 2007-2009									
<i>(Dollars in millions)</i>									
	Years ended December 31,								
	2009		2008		2007				
REVENUES									
Sempra Generation	\$	1,106	58 %	\$	1,784	64 %	\$	1,476	34 %
Sempra Pipelines & Storage		465	25		457	16		314	7
Sempra LNG		278	15		74	3		(22)	(1)
Sempra Commodities		73	4		500	18		2,674	61
Parent and other(1)		(36)	(2)		(29)	(1)		(57)	(1)
Total revenues	\$	1,886	100 %	\$	2,786	100 %	\$	4,385	100 %
COST OF SALES(2)									
Sempra Generation	\$	668	68 %	\$	1,304	78 %	\$	1,058	81 %
Sempra Pipelines & Storage		243	25		348	21		255	20
Sempra LNG		108	11		47	3		-	-
Parent and other(1)		(43)	(4)		(28)	(2)		(11)	(1)
Total cost of natural gas, electric fuel and purchased power	\$	976	100 %	\$	1,671	100 %	\$	1,302	100 %
Sempra Commodities	\$	61	76 %	\$	178	98 %	\$	988	100 %
Sempra LNG		16	20		5	3		-	-
Sempra Pipelines & Storage		2	3		-	-		-	-
Sempra Generation		1	1		1	-		1	-
Parent and other(1)		-	-		(2)	(1)		(1)	-
Total other cost of sales	\$	80	100 %	\$	182	100 %	\$	988	100 %

(1) Includes eliminations of intercompany activity.

(2) Excludes depreciation, which is shown separately on the Consolidated Statements of Operations.

In 2009, our Sempra Global and Parent revenues decreased by \$900 million (32%) to \$1.9 billion. The decrease included

§ \$678 million lower revenues at Sempra Generation, primarily due to decreased power sales and unfavorable market pricing; and

§ \$427 million lower revenues from Sempra Commodities. The 2008 revenues of \$500 million were primarily for periods prior to the formation of RBS Sempra Commodities; **offset by**

§ \$204 million higher revenues at Sempra LNG, primarily due to a full year of operations at its Energía Costa Azul LNG receipt terminal and the start up of operations at its Cameron LNG receipt terminal.

In 2008, our Sempra Global and Parent revenues decreased by \$1.6 billion (36%) to \$2.8 billion. The decrease included

§ \$2.2 billion lower revenues from Sempra Commodities. Revenues in 2008 and 2007 included \$500 million and \$2.7 billion, respectively, for Sempra Commodities. These revenues were primarily for periods prior to the formation of RBS Sempra Commodities; offset by

§ \$308 million higher revenues at Sempra Generation, primarily due to increased power sales and favorable natural gas prices and merchant sales activity;

§ \$143 million higher revenues at Sempra Pipelines & Storage, primarily from Mexican pipeline operations and the consolidation of EnergySouth starting in October 2008; and

§ \$96 million higher revenues at Sempra LNG, including \$74 million from the commencement of commercial operations at its Energía Costa Azul LNG receipt terminal in May 2008 and \$22 million lower mark-to-market losses related to a natural gas marketing agreement with RBS Sempra Commodities.

In 2009, our cost of natural gas, electric fuel and purchased power decreased by \$695 million (42%) to \$976 million. The decrease in 2009 from 2008 was associated with lower revenues at Sempra Generation and Sempra Pipelines & Storage, offset by increased costs associated with the higher revenues at Sempra LNG.

Our cost of natural gas, electric fuel and purchased power increased by \$369 million (28%) to \$1.7 billion in 2008. The increase over 2007 was primarily associated with the higher revenues at Sempra Generation, Sempra Pipelines & Storage and Sempra LNG.

In 2009, our other cost of sales decreased by \$102 million (56%) to \$80 million. Compared to 2007, our other cost of sales decreased \$806 million (82%) to \$182 million in 2008. The decreases in 2009 and 2008 were primarily due to our reduced interest in our commodities-marketing businesses. Other cost of sales included \$178 million in 2008 and \$988 million in 2007 for Sempra Commodities, primarily for periods prior to the formation of RBS Sempra Commodities.

Operation and Maintenance

In the table below, we provide a breakdown of our business units' operation and maintenance expenses.

OPERATION AND MAINTENANCE 2007-2009

(Dollars in millions)

	Years ended December 31,								
	2009		2008		2007				
Sempra Utilities:									
SDG&E	\$	961	39 %	\$	913	36 %	\$	807	27 %
SoCalGas		1,138	46		1,078	43		1,021	34
Sempra Global:									
Sempra Commodities		13	1		248	10		918	30
Sempra Generation		108	4		97	4		103	3
Sempra Pipelines & Storage		83	3		62	2		42	1
Sempra LNG		94	4		77	3		44	2
Parent and other(1)		77	3		61	2		97	3
Total operation and maintenance	\$	2,474	100 %	\$	2,536	100 %	\$	3,032	100 %

(1) Includes intercompany eliminations recorded in consolidation.

Sempra Energy Consolidated

The decrease in our operation and maintenance expenses in 2009 included

§ \$235 million from our reduced interest in our commodities-marketing businesses; and

§ \$58 million lower litigation expense at the Sempra Utilities; **offset by**

§ \$166 million higher recoverable expenses (offset in revenues) and other operational costs at the Sempra Utilities; and

§ higher operation and maintenance costs at other Sempra Global business units, including \$21 million at Sempra Pipelines & Storage primarily from the consolidation of Mobile Gas, which we acquired in October 2008; and \$17 million at Sempra LNG primarily due to a full year of operations at the Energía Costa Azul LNG receipt terminal, which commenced operations in May 2008, and the commencement of operations at the Cameron LNG receipt terminal in July 2009.

In 2008, our operation and maintenance expenses decreased due to \$670 million lower expenses from our reduced interest in our commodities-marketing businesses, offset by higher recoverable expenses (offset in revenues), litigation expense and other operational costs at the Sempra Utilities.

SDG&E

In 2009, SDG&E's operation and maintenance expenses increased by \$48 million (5%) due to:

§ \$54 million higher other operational and maintenance costs, including:

§ \$15 million higher liability insurance premiums for wildfire coverage and

§ \$7 million at the Otay Mesa Energy Center (OMEC), which began operating in October 2009; and

§ \$41 million higher recoverable expenses, including \$23 million at SONGS and \$13 million for the California Solar Initiative program; **offset by**

§ \$47 million lower litigation expense.

In 2008, the increase in SDG&E operation and maintenance expenses of \$106 million (13%) was due to:

§ \$61 million higher recoverable expenses, including:

§ \$35 million higher energy efficiency program expenses and

§ \$16 million higher electric transmission expenses;

§ \$32 million higher litigation expense; and

§ \$13 million higher other operational costs.

SoCalGas

In 2009, SoCalGas' operation and maintenance expenses increased by \$60 million (6%) due to:

§ \$74 million higher recoverable expenses, primarily from contributions to employee benefit plans; **offset by**

§ \$11 million lower litigation expense; and

§ \$3 million lower other operational and maintenance costs.

In 2008, the increase in SoCalGas operation and maintenance expenses of \$57 million (6%) was due to:

§ \$41 million higher other operational costs, including:

§ \$13 million higher materials and supplies costs,

§ \$10 million higher labor and employee benefits costs and

§ \$8 million higher bad debt expense;

§ \$13 million higher litigation expense; and

§ \$3 million higher recoverable expenses.

Gains on Sale of Assets

Sempra Energy Consolidated

Our net pretax gains on the sale of assets were

§ \$3 million in 2009

§ \$114 million in 2008

§ \$6 million in 2007

The gains in 2008 included \$109 million related to the sale of the commodities-marketing businesses into RBS Sempra Commodities, which we discuss in Note 3 of the Notes to Consolidated Financial Statements.

Write-off of Long-lived Assets

In 2009, we recorded a \$132 million write-off related to certain assets at one of Sempra Pipelines & Storage's Liberty Gas Storage natural gas storage projects. Sempra Energy's after-tax share of this write-off was \$64 million. We discuss the write-off of the assets in Note 1 of the Notes to Consolidated Financial Statements.

Equity Earnings (Losses) Before Income Taxes

Sempra Energy Consolidated

The earnings from our investment in RBS Sempra Commodities, which was formed in April 2008, were \$463 million in 2009 and \$383 million in 2008. We provide additional information about this investment's earnings in Note 4 of the Notes to Consolidated Financial Statements.

Equity earnings (losses) before income taxes from our other equity method investments were

§ \$36 million in 2009

§ \$37 million in 2008

§ \$(9) million in 2007

The increase in 2008 was primarily due to the start of operations of Rockies Express-West in the first quarter of 2008. Further details about our equity method investments are provided in Note 4 of the Notes to Consolidated Financial Statements.

Other Income (Expense), Net

Sempra Energy Consolidated

Other Income (Expense), Net, was

§ \$149 million in 2009

§ \$(109) million in 2008

§ \$73 million in 2007

We include here the allowance for equity funds used during construction (AFUDC) at the Sempra Utilities, regulatory interest, gains and losses from our investments and interest rate swaps, and other sundry amounts.

The increase in other income, net, in 2009 was primarily due to:

§ \$108 million increase from investment activity related to our executive retirement and deferred compensation plans in 2009 (\$55 million of gains in 2009 compared to \$53 million of losses in 2008);

§ a \$27 million gain from interest rate swaps at Otay Mesa VIE in 2009 compared to a \$54 million loss in 2008; and

§ \$57 million in Mexican peso exchange losses in 2008 (largely offset by foreign tax benefits arising from fluctuations in the U.S. dollar/Mexican peso exchange rate and inflation); **offset by**

§ \$16 million cash payment received for the early termination of a capacity agreement for the Cameron LNG receipt terminal in 2008.

The increase in other expense, net, in 2008 was primarily due to:

§ \$80 million decrease from investment activity related to our executive retirement and deferred compensation plans in 2008 (\$53 million of losses in 2008 compared to \$27 million of gains in 2007);

§ \$57 million in Mexican peso exchange losses in 2008 (largely offset by foreign tax benefits arising from fluctuations in the U.S. dollar/Mexican peso exchange rate and inflation); and

§ \$54 million loss from interest rate swaps at Otay Mesa VIE in 2008 compared to \$7 million net gain in 2007 from interest rate swaps (\$24 million gain from other interest rate swaps, offset by \$17 million loss from Otay Mesa VIE interest rate swaps); **offset by**

§ \$16 million cash payment received for the early termination of a capacity agreement for the Cameron LNG receipt terminal in 2008.

SDG&E

Other Income (Expense), Net, was

§ \$64 million in 2009

§ \$(29) million in 2008

§ \$(6) million in 2007

The change in 2009 was primarily due to a \$27 million gain from interest rate swaps at Otay Mesa VIE in 2009 compared to a \$54 million loss in 2008.

The increase in other expense, net, in 2008 included \$37 million higher losses from interest rate swaps at Otay Mesa VIE (\$54 million in 2008 compared to \$17 million in 2007), offset by a \$10 million increase in allowance for equity funds used during construction.

Further details of the components of Other Income (Expense), Net, appear in Note 1 of the Notes to Consolidated Financial Statements.

Interest Income

The table below shows the interest income for Sempra Energy Consolidated, SDG&E, PE and SoCalGas.

	INTEREST INCOME 2007-2009		
	<i>(Dollars in millions)</i>		
	Years ended December 31,		
	2009	2008	2007
Sempra Energy Consolidated	\$ 21	\$ 45	\$ 72
SDG&E	1	6	8
PE	4	22	51
SoCalGas	3	11	27

In 2009, Sempra Energy Consolidated's interest income decreased due to:

§ \$5 million lower interest income from our reduced ownership interest in the commodities-marketing businesses;

§ \$4 million associated with the remarketing of industrial development bonds in 2009 at Parent and Other;

§ \$4 million from a decrease in a note receivable due from an unconsolidated subsidiary of Sempra Generation as a result of converting the note to equity; and

§ lower interest rates, offset by higher average short-term investment balances.

The decrease in PE's interest income in 2009 was primarily due to:

§ lower interest income at SoCalGas, which we discuss below; and

§ lower interest rates on notes receivable due from Sempra Energy to PE, partially offset by higher average balances on those notes.

The decrease in SoCalGas' interest income in 2009 was primarily due to:

§ decreased interest income from lower interest rates, partially offset by higher average short-term investment balances in 2009 compared to 2008; and

§ lower interest rates and lower average balances on notes receivable from Sempra Energy.

The decrease in SDG&E's interest income in 2009 was primarily due to lower interest rates, offset by higher average short-term investment balances.

In 2008, the decreases in interest income at Sempra Energy Consolidated, PE and SoCalGas were primarily due to lower average short-term investment balances and lower interest rates.

Interest Expense

The table below shows the interest expense for Sempra Energy Consolidated, SDG&E, PE and SoCalGas.

	INTEREST EXPENSE 2007-2009		
	(Dollars in millions)		
	Years ended December 31,		
	2009	2008	2007
Sempra Energy Consolidated	\$ 367	\$ 253	\$ 272
SDG&E	104	96	96
PE	69	65	76
SoCalGas	68	62	70

Sempra Energy Consolidated

Our interest expense increased by \$114 million (45%) due to:

- § \$73 million higher net interest expense at Parent and Other primarily from long-term debt issued in 2008 and 2009 and higher average commercial paper borrowings in 2009, partially offset by lower interest rates on the commercial paper;
- § long-term debt issued in 2009 at SDG&E and in 2008 at SoCalGas, partially offset by lower interest rates;
- § \$18 million reduced interest expense related to litigation reserves in 2008; and
- § \$17 million net lower capitalized interest, including \$26 million lower capitalized interest at Sempra LNG due to completion of construction projects, offset by \$7 million higher capitalized interest at Sempra Pipelines & Storage.

In 2008, the decrease was due to:

- § \$18 million reduced interest expense related to energy crisis litigation reserves;
- § \$13 million lower other short-term debt interest;
- § \$30 million effect of the repayment of long-term debt in 2007 at Parent and Other; and
- § lower interest rates; **offset by**
- § \$35 million higher interest expense primarily from long-term debt issued by SDG&E in September 2007 and by Parent and Other in 2008; and
- § \$5 million net lower capitalized interest, including a reduction in interest expense at Sempra LNG due to the start of commercial operations at the Energía Costa Azul LNG receipt terminal in May 2008, offset by higher capitalized interest for Sempra Pipelines & Storage's projects.

SDG&E

In 2009, SDG&E's interest expense increased \$8 million primarily due to long-term debt issued in 2009, partially offset by lower interest rates. In 2008, \$10 million higher interest from long-term debt issued in September 2007 was partially offset by \$5 million lower short-term debt interest and \$3 million higher capitalized interest.

PE and SoCalGas

In 2009, PE's and SoCalGas' interest expense increased \$4 million and \$6 million, respectively, primarily due to long-term debt issued by SoCalGas in the fourth quarter of 2008, partially offset by lower interest rates. In 2008, the decrease in PE's and SoCalGas' interest expense of \$11 million and \$8 million, respectively, was primarily the result of lower interest rates.

Income Taxes

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

INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES 2007-2009

(Dollars in millions)

	Years ended December 31,					
	2009		2008		2007	
	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income Tax Rate
Sempra Energy Consolidated(1)	\$ 422	29 %	\$ 438	30 %	\$ 524	34 %
SDG&E(1)	177	32	161	36	135	33
PE(1)	145	35	141	36	165	40
SoCalGas	144	34	140	36	160	41

(1) Effective income tax rates for 2008 and 2007 were adjusted for the retrospective adoption of ASC 810 (SFAS 160).

Sempra Energy Consolidated

In 2009, Sempra Energy's income tax expense decreased by \$16 million (4%) due to a lower effective income tax rate, offset partially by higher pretax income. The lower effective tax rate resulted from:

- § higher pretax income in countries with lower statutory rates;
- § the impact of Otay Mesa VIE; and
- § higher deductions for self-developed software costs; **offset by**
- § higher income tax expense related to Mexican currency translation and inflation adjustments;
- and
- § the impact of noncontrolling interests.

In 2009, Sempra Energy received an income tax benefit of \$35 million from the write-off of assets at Liberty, which we discuss in Note 1 of the Notes to Consolidated Financial Statements. This tax benefit was due to a non-recurring event in 2009.

In 2008, the decrease in income tax expense compared to 2007 was due to lower pretax income and a lower effective tax rate. The decrease in the effective tax rate was primarily due to:

- § higher favorable impact from the resolution of prior years' income tax issues in 2008;
- § lower income tax expense related to Mexican currency translation and inflation adjustments;
- and
- § larger tax deductions, primarily at the Sempra Utilities related to self-developed software costs; **offset by**
- § lower synthetic fuels credits generated in 2008 compared to 2007.

As the result of the implementation of Statement of Financial Accounting Standards (SFAS) No. 160 (Accounting Standards Codification (ASC) 810), *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, as we discuss in Note 2 of the Notes to Consolidated Financial Statements we report as part of our pretax results the income or loss attributable to noncontrolling interests. However, we do not record income taxes for this income or loss, as 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.

SDG&E

In 2009, SDG&E's income tax expense increased by \$16 million (10%) due to higher pretax income, offset partially by a lower effective income tax rate. The lower effective tax rate was primarily due to:

- § the impact of Otay Mesa VIE; **offset by**
- § lower favorable impact from the resolution of prior years' income tax issues.

In 2008, the increase in income tax expense was due to higher pretax income and a higher effective income tax rate. The higher effective income tax rate was primarily due to:

- § the impact of Otay Mesa VIE in 2008; and
- § in 2007, the resolution of a regulatory matter resulted in pretax income of \$27 million and income tax of \$1 million, which reduced the 2007 effective tax rate by 2%; **offset by**
- § an increase in tax deductions (primarily related to the equity portion of AFUDC and self-developed software costs).

SDG&E's results include the results of VIEs that are consolidated, and therefore, SDG&E's effective income tax rate is impacted by the effective income tax rate of the VIEs on a stand alone basis. This impact increased (decreased) SDG&E's effective income tax rate by (2)% in 2009, 4% in 2008 and 1% in 2007.

PE and SoCalGas

In 2009, PE's and SoCalGas' income tax expense increases were due to higher pretax income, offset primarily by larger deductions for self-developed software costs.

In 2008, the decrease in income tax expense was primarily due to lower pretax income, larger tax deductions (primarily for self-developed software costs) and the lower impact of state income taxes, net of federal income tax benefit.

Equity Earnings, Net of Income Tax

Sempra Energy Consolidated

Equity earnings of unconsolidated subsidiaries, net of income tax, were

§ \$68 million in 2009

§ \$63 million in 2008

§ \$99 million in 2007

Equity earnings, net of income tax, were lower in 2008 due to a transaction in 2007. In February 2007, Sempra Commodities sold its interests in an equity method investment and a related cost-basis investment for cash and a 12.7-percent interest in a newly formed entity. The gain on this transaction was \$30 million. We provide further discussion of our equity method investments in Note 4 of the Notes to Consolidated Financial Statements.

Discontinued Operations

Sempra Energy Consolidated

Loss from discontinued operations was \$26 million in 2007. We provide further discussion in Note 5 of the Notes to Consolidated Financial Statements.

(Earnings) Losses Attributable to Noncontrolling Interests

Sempra Energy Consolidated

Losses attributable to noncontrolling interests decreased \$48 million in 2009 due to:

§ \$27 million in gains on interest rate swaps in 2009 at Otay Mesa VIE compared to losses of \$54 million in 2008; **offset by**

§ \$33 million write-off of assets related to the Liberty project in 2009.

Losses attributable to noncontrolling interests in 2007 were from losses on interest rate swaps at Otay Mesa VIE.

SDG&E

Earnings attributable to noncontrolling interests were \$24 million in 2009 compared to losses of \$54 million in 2008, due primarily to \$27 million in gains on interest rate swaps in 2009 at Otay Mesa VIE compared to losses of \$54 million in 2008. Losses attributable to noncontrolling interests in 2007 were from losses on interest rate swaps at Otay Mesa VIE.

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 by business unit above in "Business Unit 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

§ \$36.54 in 2009

§ \$32.75 in 2008

§ \$31.93 in 2007

The increases in 2009 and 2008 were primarily the result of comprehensive income exceeding dividends. The increase in 2009 was offset by an increase in common stock primarily from issuances under our savings plans and from employee stock option exercises. The increase in 2008 compared to 2007 was also due to the reduction in common stock shares from a 2008 share repurchase program, partially offset by share repurchases, primarily under the share repurchase program, at prices greater than book value.

CAPITAL RESOURCES AND LIQUIDITY

We expect our cash flows from operations to fund a substantial portion of our capital expenditures and dividends. In addition, we may meet our cash requirements through the issuance of short-term and long-term debt and the expected proceeds from the transaction to sell certain businesses within RBS Sempra Commodities, as we discuss below.

Significant events affecting cash flows in 2009 were

§ Long-term debt issuances of \$1.8 billion (excluding VIEs)

§ Long-term debt retirements of \$535 million (including \$100 million prepayment of notes payable due to an unconsolidated affiliate)

§ \$625 million invested in Rockies Express

§ \$235 million invested in Fowler Ridge II

§ \$119 million prepayment of remaining installments due under a litigation settlement

We discuss these events in more detail later in this section.

Our committed lines of credit provide liquidity and support commercial paper. They expire in August 2011. At Sempra Energy, they are syndicated broadly among 20 different banks and at the Sempra Utilities, among 17 different banks. No single bank has greater than an 11-percent share in any agreement.

The table below shows the amount of available funds at year-end 2009:

AVAILABLE FUNDS AT DECEMBER 31, 2009

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E	PE/SoCalGas
Unrestricted cash and cash equivalents	\$	110	\$ 13	\$ 49
Available unused credit ⁽¹⁾		3,564	338	538

(1) Borrowings on the shared line of credit at SDG&E and SoCalGas, discussed in Note 6, are limited to \$600 million for each utility and \$800 million in total. SDG&E's available unused credit has been reduced by letters of credit outstanding of \$25 million and outstanding variable-rate demand notes of \$237 million supported by the line. SoCalGas' availability reflects the impact of SDG&E's use of the combined credit available on the line.

Sempra Energy Consolidated

We believe that these available funds and cash flows from operations, distributions from equity method investments and security issuances, combined with current cash balances, will be adequate to:

- § finance capital expenditures
- § meet liquidity requirements
- § fund shareholder dividends
- § fund new business acquisitions or start-ups

As we discuss above under "Our Business—Sempra Energy Business Units—Sempra Commodities," RBS Sempra Commodities has entered into an agreement to sell certain of its businesses in a transaction scheduled to close in the second quarter of 2010. We estimate the proceeds that we receive from this transaction will approximate \$835 million, excluding undistributed partnership earnings through November 2009. We may use the proceeds to fund growth opportunities, to reduce debt or, if we exit the business entirely, for a possible repurchase of our common shares.

Both Sempra Energy and SDG&E issued long-term debt in 2009. However, 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 to be unable to borrow under acceptable terms, we would reduce or postpone discretionary capital expenditures and investments in new businesses. If these measures were necessary, they would primarily impact our Sempra Global businesses, as credit availability for the Sempra Utilities has not been significantly impacted by the credit crisis. Discretionary expenditures at Sempra Global would include projects that we have not yet made firm commitments to build, primarily renewable generation facilities. 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-quality ratings.

We have significant investments in several trusts to provide for future payments of pensions and other postretirement benefits, and nuclear decommissioning. The value of the trust funds' investments declined in 2008 and the first quarter of 2009 due to a decrease in the equity market and volatility in the fixed income market. These markets continue to be volatile. The decrease in asset values has not affected the funds' abilities to make their required payments, however we expect funding requirements for pension and other postretirement benefit plans to increase. At the Sempra Utilities, funding requirements are generally recoverable in rates.

In November 2009, we prepaid the remaining installments due under the Continental Forge litigation settlement. Under the settlement, prepayments are discounted at 7 percent, yielding a prepayment amount of \$119 million. Funding of the payment was \$36 million by Sempra Energy, \$28 million by SDG&E and \$55 million by SoCalGas.

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

Sempra Utilities

The Sempra Utilities expect that cash flows from operations and debt issuances will continue to be adequate to meet utility capital expenditure requirements. Due to the extended review period associated with the Sunrise Powerlink project and the resultant delay in initiating construction activities, SDG&E declared and paid a \$150 million common dividend to Sempra Energy in the first quarter of 2009. However, the level of future common dividends from SDG&E and SoCalGas may be reduced or eliminated during periods of increased capital expenditures. The level of future common dividends from PE is dependent upon common dividends paid by SoCalGas. Sempra Energy may from time to time make additional equity contributions to SDG&E and SoCalGas to support the Sempra Utilities' capital expenditure programs.

Sempra Commodities

On April 1, 2008, we completed the formation of RBS Sempra Commodities, a partnership to own and operate Sempra Energy's commodities-marketing businesses, which generally comprised the Sempra Commodities business unit. RBS is obligated to provide the joint venture with all growth capital, working-capital requirements and credit support. However, we are providing transitional back-up guarantees and credit support,

some of which may continue for a prolonged period of time. RBS has fully indemnified us for any claims or losses in connection with these arrangements.

We account for our investment in the partnership under the equity method. RBS Sempra Commodities intends to distribute all of its net income on an annual basis, although the distributions are within the discretion of the board of directors of the partnership. In limited cases, the partnership may retain earnings allocable to the partners to replenish capital depleted through losses. In 2009 and 2008, we received cash distributions from the partnership of \$407 million and \$85 million, respectively.

We discuss above under “Our Business – Sempra Energy Business Units – Sempra Commodities” the sale of certain businesses within RBS Sempra Commodities and anticipated changes to certain provisions of the partnership agreement entered into by RBS and Sempra Commodities upon the formation of the joint venture. The impact of the transaction on future cash flows will depend on many factors, including the final proceeds received from the transaction and the date at which the transaction closes, after which we will be receiving lower earnings from the joint venture. The businesses being sold have historically generated 40 to 60 percent of total earnings of the businesses in the partnership, and have averaged more than 50 percent. RBS’ obligation to support the capital needs of the joint venture, and the need for us to provide transitional back-up guarantees and credit support are expected to continue after the consummation of the transaction.

We provide additional information about RBS Sempra Commodities and the pending transaction with J.P. Morgan Ventures in Notes 3, 4, 6 and 20 of the Notes to Consolidated Financial Statements.

Sempra Generation

We expect Sempra Generation to require funds for the development of electric generation facilities, primarily renewable energy projects. Projects at Sempra Generation may be financed through a combination of operating cash flow, project financing, funds from the parent and external borrowings. Cash flows from operations at Sempra Generation are expected to decrease upon the expiration of their contract with the DWR in late 2011 due to less favorable pricing on replacement contracts. Also, Sempra Generation may not be able to replace all of the lost revenue.

Some of Sempra Generation's long-term power sale contracts contain collateral requirements, although, the DWR contracts do not contain such requirements. The collateral arrangements require Sempra Generation and/or the counterparty to post cash, guarantees or letters of credit to the other party for exposure in excess of established thresholds. Sempra Generation may be required to provide collateral when market price movements adversely affect the counterparty's cost of replacement energy supplies if Sempra Generation fails to deliver the contracted amounts. Sempra Generation had no outstanding collateral requirements under such contracts at December 31, 2009 and 2008.

Sempra Pipelines & Storage

Sempra Pipelines & Storage is expected to require funding from the parent or from external sources to fund projects and investments, including:

- § development and expansion of its natural gas storage projects
- § participation in the REX natural gas pipeline

Also, on February 24, 2010, Sempra Pipelines & Storage announced that it will acquire the Mexican pipeline and natural gas infrastructure assets of El Paso Corporation for \$300 million. We discuss this transaction further in "Factors Influencing Future Performance – Sempra Global Investments."

Sempra LNG

Sempra LNG required funding from 2007 through 2009 for its development of the Energía Costa Azul and Cameron LNG receipt terminals. As both of these facilities are now in service, Sempra LNG is expected to provide operating cash flow for further development within Sempra Global.

CASH FLOWS FROM OPERATING ACTIVITIES

CASH PROVIDED BY OPERATING ACTIVITIES

(Dollars in millions)

	2009	2009 Change		2008	2008 Change		2007
Sempra Energy Consolidated	\$ 1,875	\$ 684	57 %	\$ 1,191	\$ (907)	(43) %	\$ 2,098
SDG&E	641	22	4	619	(41)	(6)	660
PE	433	(140)	(24)	573	81	16	492
SoCalGas	440	(128)	(23)	568	90	19	478

Sempra Energy Consolidated

Cash provided by operating activities at Sempra Energy increased in 2009 due to:

- § a lower decrease in accounts payable (\$332 million of the decrease in 2008 relates to Sempra Commodities prior to the formation of the joint venture RBS Sempra Commodities);
- § \$322 million higher distributions received from RBS Sempra Commodities;
- § a decrease in inventory in 2009 compared to an increase in 2008, primarily at SoCalGas; and
- § an increase in overcollected regulatory balancing accounts in 2009 compared to a decrease in 2008; **offset by**
- § an accounts receivable increase in 2009 compared to a decrease in 2008, including \$132 million at SoCalGas and smaller increases at each of our other businesses; and
- § \$119 million prepayment of the six remaining installments due under the Continental Forge litigation.

The changes in Other Current Assets and Other Current Liabilities in 2009 at both Sempra Energy and SDG&E include \$662 million in payments received from our liability insurance and \$652 million of settlements paid related to the SDG&E 2007 wildfire litigation, respectively. We discuss this litigation in Note 17 of the Notes to Consolidated Financial Statements.

The decrease in cash provided by operating activities at Sempra Energy in 2008 was due to:

- § a \$297 million decrease in net income (adjusted for noncash items, including \$383 million related to equity earnings from RBS Sempra Commodities);
- § a decrease of \$303 million in net trading assets in 2007 compared to a \$4 million increase in 2008 (prior to the sale of the commodities-marketing businesses to RBS Sempra Commodities);
- § a decrease in overcollected balancing accounts in 2008 compared to an increase in 2007, primarily at SDG&E; and
- § a decrease in accounts payable, primarily due to accruals for costs associated with the El Dorado outage at Sempra Generation at the end of 2007 and a decrease at Sempra Commodities in 2008 (prior to the sale of the commodities-marketing businesses to RBS Sempra Commodities); **offset by**
- § a decrease in accounts receivable, primarily at SoCalGas due to higher natural gas volumes in 2007 due to a colder winter in 2007 compared to 2008; and
- § \$329 million lower net income tax payments due to 2007 overpayments applied to 2008 taxes and higher refunds received in 2008 as compared to 2007.

SDG&E

Cash provided by operating activities at SDG&E increased in 2009 primarily due to an increase in overcollected regulatory balancing accounts compared to a decrease in 2008 and \$10 million in cash received from liability insurance, net of settlement payments, related to the 2007 wildfire litigation, as we discuss above under "Sempra Energy Consolidated." 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.

These inflows were offset by higher net income tax payments in 2009 and a lower decrease in inventory. The lower decrease in inventory resulted from SoCalGas assuming procurement responsibility for SDG&E's core natural gas customers effective April 2008. As a result, SDG&E depleted its natural gas inventory at the end of the first quarter 2008. Remaining inventory, comprised primarily of materials and supplies, stayed relatively unchanged in 2009.

Cash provided by operating activities at SDG&E decreased in 2008 primarily due to a decrease in overcollected regulatory balancing accounts compared to an increase in 2007. The decrease in overcollected regulatory balancing accounts was offset by other changes in working capital, principally inventory and lower net income tax payments. The reduction in inventory in 2008 resulted from SoCalGas assuming procurement responsibility as discussed above. Lower net income tax payments were due to 2007 overpayments applied to 2008 taxes and higher refunds received in 2008 as compared to 2007.

PE and SoCalGas

Cash provided by operating activities at PE and SoCalGas decreased in 2009 due to changes at SoCalGas, primarily due to the effect on working capital balances of:

- § an increase in accounts receivable in 2009 compared to a decrease in 2008. Customer receivables in 2009 were relatively unchanged from 2008, however, other accounts receivable increased in 2009 primarily due to natural gas storage transactions;
- § a decrease in accounts payable in 2009 compared to an increase in 2008 due to lower natural gas prices; and
- § the \$55 million prepayment of remaining installments due under the Continental Forge litigation settlement; **offset by**
- § a decrease in inventory in 2009 compared to an increase in 2008 due to higher withdrawals from inventory in the fourth quarter of 2009 to supply core customers and unseasonably warm weather in the fourth quarter of 2008 resulting in lower than normal demand for natural gas by core customers.

Cash provided by operating activities at PE increased in 2008 primarily due to changes at SoCalGas, principally an increase in net income adjusted for noncash items (\$89 million at PE and \$91 million at SoCalGas), and a decrease in accounts receivable. Accounts receivable decreased in 2008 and increased in 2007 due to lower natural gas prices and unseasonably warm weather in 2008, resulting in lower demand for natural gas for heating in the fourth quarter.

These increases were offset by an increase in inventory and a \$40 million payment for the termination of an interest rate swap in 2008. The increase in inventory in 2008 resulted from SoCalGas assuming procurement responsibility for SDG&E's core natural gas customers in 2008.

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 2007-2009

(Dollars in millions)

	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Sempra Energy Consolidated	\$ 185	\$ 66	\$ 35	\$ 45	\$ 40	\$ 45
SDG&E	58	38	27	16	16	15
PE and SoCalGas	76	1	1	28	22	28

CASH FLOWS FROM INVESTING ACTIVITIES

CASH USED IN INVESTING ACTIVITIES

(Dollars in millions)

	2009	2009 Change	2008	2008 Change	2007
Sempra Energy Consolidated	\$ (2,672)	\$ 286	\$ (2,386)	\$ 313	\$ (2,073)
SDG&E	(925)	(15)	(940)	233	(707)
PE	(485)	166	(319)	(170)	(489)
SoCalGas	(496)	178	(318)	(161)	(479)

Sempra Energy Consolidated

Cash used in investing activities at Sempra Energy increased in 2009 due to:

- § \$475 million higher investments in Rockies Express;

- § \$235 million invested in Fowler Ridge II;
 - § \$461 million net proceeds in 2008 from the transaction to form the RBS Sempra Commodities joint venture; and
 - § \$61 million lower proceeds from the remarketing of industrial development bonds in 2009;
- offset by**
- § \$495 million (net of \$16 million cash acquired) for the acquisition of EnergySouth in 2008;
 - § \$338 million decrease in purchases of industrial development bonds in 2009; and
 - § \$149 million decrease in capital expenditures, primarily due to the completion of Sempra Global projects in 2009.

The increase in cash used in investing activities at Sempra Energy in 2008 was primarily due to the following outflows of cash:

- § \$495 million for the acquisition of EnergySouth;
- § \$150 million investment in Rockies Express; and
- § \$413 million in purchases of industrial development bonds, offset by proceeds from remarketing \$237 million of these bonds.

These outflows were partially offset by the net proceeds from the RBS transaction. Total proceeds of \$2.1 billion, which are net of \$383 million of cash sold, were offset by our capital contribution of \$1.6 billion to form the partnership.

SDG&E

Cash used in investing activities at SDG&E decreased slightly in 2009 primarily due to:

- § \$24 million net proceeds from the remarketing of industrial development bonds in 2009 compared to \$24 million net purchases in 2008; and
- § a \$20 million decrease in loans to affiliates in 2009 compared to an increase of \$33 million in 2008; **offset by**
- § a \$71 million net increase in capital expenditures (a \$109 million increase at SDG&E and \$25 million increase at Orange Grove VIE, offset by a decrease of \$63 million at Otay Mesa VIE).

The increase in cash used in investing activities at SDG&E in 2008 was primarily due to:

- § a \$170 million increase in capital expenditures, including a \$91 million increase at Otay Mesa VIE;
- § the net purchase of \$24 million of industrial development bonds; and
- § a \$33 million increase in loans to affiliates.

PE and SoCalGas

Cash used in investing activities at PE increased in 2009, primarily due to a \$16 million increase in advances from SoCalGas to Sempra Energy compared to a \$136 million decrease in 2008.

The decrease in cash used in investing activities at PE in 2008 was due to the reduction in outstanding advances from SoCalGas to Sempra Energy by \$136 million in 2008.

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 18 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY		
CAPITAL EXPENDITURES AND INVESTMENTS/ACQUISITIONS		
<i>(Dollars in millions)</i>		
	Property, plant and equipment	Investments and acquisition of subsidiaries
2009	\$ 1,912	\$ 939
2008	2,061	2,675
2007	2,011	121
2006	1,907	257
2005	1,377	86

Sempra Energy Consolidated Capital Expenditures

Capital expenditures at the Sempra Utilities are discussed below.

At Sempra Global, the primary capital expenditures over the last three years were as follows:

Sempra LNG

Energía Costa Azul LNG Receipt Terminal. Energía Costa Azul began commercial operations in May 2008.

The nitrogen-injection facility was placed in service in December 2009. Total expenditures for the project were

\$1.2 billion related to the terminal (including breakwater), the nitrogen-injection facility, and an expansion project, including:

- § \$54 million in 2009
- § \$228 million in 2008
- § \$298 million in 2007

Cameron LNG Receipt Terminal. The Cameron LNG receipt terminal began commercial operations in July 2009. Total costs of this project were approximately \$900 million, excluding pre-expansion costs of \$44 million. Expenditures over the last three years are as follows:

- § \$153 million in 2009
- § \$152 million in 2008
- § \$224 million in 2007

Sempra Pipelines & Storage

In 2009, Sempra Pipelines & Storage completed its Cameron Interstate Pipeline project in Louisiana connecting the Cameron LNG receipt terminal with several interstate pipelines and in 2008, completed its expansion of existing pipelines in Baja California, Mexico, and the addition of a spur line to connect Sempra LNG's Energía Costa Azul LNG receipt terminal to an existing Sempra Energy natural gas pipeline in Mexico with interconnections to the U.S. border. Sempra Pipelines & Storage also had capital expenditures for its natural gas storage projects. Related expenditures were

Pipelines:

- § \$10 million in 2009
- § \$147 million in 2008
- § \$270 million through 2007

Natural gas storage:

- § \$127 million in 2009
- § \$34 million in 2008
- § \$217 million through 2007

Sempra Energy Investments and Acquisitions

In 2009, investments consisted primarily of:

- § \$625 million for Rockies Express and \$235 million for Fowler Ridge II
- § the purchase of \$75 million in industrial development bonds

In 2008, investments and acquisitions consisted primarily of:

- § capital contribution of \$1.6 billion to RBS Sempra Commodities and \$150 million invested in Rockies Express
- § the acquisition of EnergySouth for \$495 million (net of \$16 million of cash acquired)
- § the purchase of \$413 million in industrial development bonds

In 2007, investments consisted primarily of:

- § \$100 million invested in Rockies Express
- § \$21 million for purchases of available-for-sale securities and other investments

Purchase of Bonds Issued by Unconsolidated Affiliate

In November 2009, Sempra Pipelines & Storage purchased \$50 million of 2.75% bonds issued by Chilquinta Energía S.A., a Chilean electric utility, that are denominated in Chilean Unidades de Fomento. We discuss these bonds in Note 4 of the Notes to Consolidated Financial Statements.

Sempra Utilities Capital Expenditures and Investments

The Sempra Utilities' capital expenditures for property, plant and equipment were

<i>(Dollars in millions)</i>	2009	2008	2007
SDG&E	\$ 955	\$ 884	714
SoCalGas	480	454	457

Capital expenditures at the Sempra Utilities in 2009 consisted primarily of:

SDG&E

- § \$447 million of improvements to natural gas and electric distribution systems
- § \$149 million of improvements to electric transmission systems
- § \$114 million for the Sunrise Powerlink transmission line
- § \$97 million for electric generation plants and equipment
- § \$115 million at Otay Mesa VIE
- § \$25 million at Orange Grove VIE

SoCalGas

- § \$480 million of improvements to natural gas infrastructure

SDG&E also purchased \$152 million and \$488 million of industrial development bonds in 2009 and 2008, respectively. We discuss these bonds in Note 6 of the Notes to Consolidated Financial Statements.

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 2010, we expect to make capital expenditures and investments of \$3 billion, including:

- § \$2.1 billion at the Sempra Utilities (excluding VIEs) for capital projects and plant improvements (\$1.5 billion at SDG&E and \$600 million at SoCalGas)
- § \$900 million at our other subsidiaries for the development of natural gas storage facilities and pipelines, and renewable generation projects

The expected capital expenditures of \$900 million at our other subsidiaries include approximately \$150 million to \$250 million for Copper Mountain Solar (a 48-MW solar generation facility under construction by Sempra Generation in Boulder City, Nevada), approximately \$250 million to \$300 million for Sempra Pipelines & Storage's development of natural gas storage projects at Liberty, Bay Gas and Mississippi Hub, and \$300 million for Sempra Pipelines & Storage's acquisition of Mexican pipeline and natural gas infrastructure assets that we discuss in "Factors Influencing Future Performance – Sempra Global Investments."

In 2010, the Sempra Utilities expect their capital expenditures to include:

- § \$780 million for additions to SDG&E's natural gas and electric distribution systems, advanced metering infrastructure and electric generation plant and equipment
- § \$600 million at SoCalGas for improvements to distribution and transmission systems, and for advanced metering infrastructure
- § \$540 million at SDG&E for the Sunrise Powerlink transmission line
- § \$190 million for improvements to SDG&E's electric transmission infrastructure

The Sempra Utilities expect to finance these expenditures and investments with cash flows from operations, cash on hand and debt issuances. These amounts do not include expected capital expenditures of Otay Mesa VIE and Orange Grove VIE.

Over the next five years, the Sempra Utilities expect to make capital expenditures of:

§ \$6.9 billion at SDG&E, at an average rate of \$1.4 billion per year

§ \$3.7 billion at SoCalGas, at an average rate of \$750 million per year

SDG&E's estimated capital expenditures include \$200 million for the transfer of Sempra Generation's El Dorado facility in 2011.

Sempra Energy expects to make capital expenditures at its other subsidiaries of \$4 billion, at an average rate of \$800 million per year, over the next five years.

Capital expenditure amounts include capitalized interest. At the Sempra Utilities, the amounts also include the portion of AFUDC related to debt, but exclude the portion of 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 15, 16 and 17 of the Notes to Consolidated Financial Statements.

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 and business opportunities providing desirable rates of return. We intend to finance our capital expenditures in a manner that will maintain our strong investment-grade ratings and capital structure.

CASH FLOWS FROM FINANCING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

(Dollars in millions)

	2009	2009 Change		2008	2008 Change		2007
Sempra Energy Consolidated	\$ 576	\$ (282)	(33) %	\$ 858	\$ 1,164	380 %	\$ (306)
SDG&E	278	96	53	182	15	9	167
PE	(105)	2	2	(107)	48	31	(155)
SoCalGas	(101)	2	2	(103)	48	32	(151)

Sempra Energy Consolidated

Cash from financing activities in 2009 decreased due to:

§ a \$659 million decrease in short-term debt in 2009 compared to a \$564 million increase in 2008;

§ \$456 million higher debt payments; and

§ \$94 million purchase of the remaining 40-percent interest in Mississippi Hub (as we discuss in Note 3 of the Notes to Consolidated Financial Statements); **offset by**

§ \$996 million lower common stock repurchases in 2009;

§ a \$445 million increase in issuances of debt (including \$145 million short-term debt with maturities greater than 90 days); and

§ a \$55 million increase in common stock issuances.

The increase in cash from financing activities at Sempra Energy in 2008 was primarily due to:

§ a \$1.3 billion increase in issuances of debt; and

§ a \$993 million decrease in debt payments; **offset by**

§ an \$833 million increase in common stock repurchases (reflecting our \$1 billion share repurchase program in 2008); and

§ a \$248 million lower increase in short-term debt.

SDG&E

Cash provided by financing activities in 2009 increased due to:

§ a \$246 million net increase in issuances of long-term debt in 2009 (increases of \$299 million at SDG&E and \$20 million at Orange Grove VIE, offset by a decrease of \$73 million at Otay Mesa VIE); **offset by**

§ \$150 million in common dividends paid in 2009.

Cash provided by financing activities at SDG&E in 2008 increased due to:

§ no payments on long-term debt in 2008, compared to \$66 million in 2007; and

§ a \$72 million decrease in short-term debt in 2007; **offset by**

§ a \$120 million net decrease in the issuance of long-term debt in 2008 (a \$250 million decrease at SDG&E, offset by an increase of \$130 million by Otay Mesa VIE).

PE and SoCalGas

Cash used in financing activities at PE and SoCalGas in 2009 stayed relatively constant. Net activity included \$350 million in common dividends paid in 2008; **offset by** \$250 million issuance of long-term debt in 2008; and \$100 million long-term debt payment in 2009.

Cash used in financing activities at PE and SoCalGas in 2008 decreased due to a \$250 million issuance of long-term debt in 2008, offset by an increase of \$200 million in common dividends paid.

LONG-TERM DEBT

Long-term balances (including the current portion of long-term debt) at December 31 were

<i>(Dollars in millions)</i>	2009	2008	2007
Sempra Energy Consolidated	\$ 8,033	\$ 6,954	\$ 4,560
SDG&E	2,668	2,144	1,958
PE/SoCalGas	1,294	1,370	1,113

At December 31, 2009, the following information applies to long-term debt:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated	SDG&E	SoCalGas
Weighted average life to maturity, in years	12.3	16.8	8.5
Weighted average interest rate	5.81 %	5.12 %	4.69 %

Issuances of Long-Term Debt

Issuances of long-term debt over the last three years included the following:

<i>(Dollars in millions)</i>	Amount	Rate	Maturing
Sempra Energy			
Notes, October 2009	\$ 750	6.00 %	2039
Notes, May 2009	750	6.50	2016
Notes, November 2008	250	8.90	2013
Notes, November 2008	500	9.80	2019
Notes, June 2008	500	6.15	2018
SDG&E(1)			
First mortgage bonds, May 2009	300	6.00	2039
First mortgage bonds, September 2007	250	6.125	2037
SoCalGas			
First mortgage bonds, November 2008	250	5.50	2014

(1) In 2009, SDG&E's variable interest entities, Otay Mesa VIE and Orange Grove VIE (from the date of consolidation), had construction loan borrowings of \$121 million and \$20 million, respectively. Otay Mesa VIE had \$193 million and \$63 million of construction loan borrowings in 2008 and 2007, respectively.

Sempra Energy used the proceeds from its issuances of long-term debt primarily for general corporate purposes, including the repayment of commercial paper and to repay maturing long-term notes.

The Sempra 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) capital expenditure programs,
- § to replenish amounts expended and fund future expenditures for the expansion and improvement of their utility plants, and
- § to repay commercial paper at SDG&E.

Payments on Long-Term Debt

Payments on long-term debt in 2009 included

- § \$300 million of Sempra Energy 4.75-percent notes payable at maturity in May 2009
- § \$100 million of SoCalGas variable rate first mortgage bonds at maturity in December 2009

Payments on long-term debt in 2007 primarily consisted of:

- § \$600 million of Sempra Energy 4.621-percent notes payable at maturity in May 2007
- § \$300 million of Sempra Energy variable rate notes payable with a maturity of May 2008 that were redeemed in August 2007
- § \$66 million remaining outstanding balance of SDG&E's rate-reduction bonds

In Note 6 of the Notes to Consolidated Financial Statements, we provide information about our lines of credit and additional information about debt activity.

Payments on Notes Payable to Unconsolidated Affiliate

Sempra Pipelines & Storage prepaid \$100 million of notes payable due to Chilquinta Energía Finance Co. LLC in November 2009 and paid \$60 million of notes payable at maturity in April 2008.

CAPITAL STOCK TRANSACTIONS

Sempra Energy

Cash provided by employee stock option exercises was

- § \$47 million in 2009
- § \$18 million in 2008
- § \$32 million in 2007

During 2008, we repurchased 18.4 million shares of our common stock for \$1 billion in a share repurchase program authorized in 2007. We discuss this repurchase program in Note 14 of the Notes to Consolidated Financial Statements.

During 2007, we repurchased approximately 3 million shares of common stock for \$161 million in connection with a share repurchase program authorized in 2005.

DIVIDENDS

Sempra Energy

Sempra Energy paid dividends on common stock of:

§ \$341 million in 2009

§ \$339 million in 2008

§ \$316 million in 2007

The increases were due to increases in the per-share quarterly dividend from \$0.31 in 2007 to \$0.35 in 2008 and to \$0.39 in 2009. The increase in 2009 was offset by \$32 million due to our dividend reinvestment programs related to share-based compensation and retirement programs and \$11 million due to the reduction in shares from the share repurchase program in 2008.

On December 18, 2009, Sempra Energy declared a quarterly dividend of \$0.39 per share of common stock that was paid on January 15, 2010.

SDG&E paid a \$150 million common dividend to Sempra Energy in the first quarter of 2009 due to a delay in capital expenditures resulting from the extended review period associated with the Sunrise Powerlink project.

SDG&E did not pay any common dividends to Sempra Energy in 2008 and 2007 to preserve cash to fund its capital expenditures program.

SoCalGas paid dividends to PE and PE paid corresponding dividends to Sempra Energy of:

§ \$350 million in 2008

§ \$150 million in 2007 (paid in January 2008)

Dividends paid by SoCalGas to PE are eliminated in Sempra Energy's and PE's consolidated financial statements for all three years. Dividends paid by PE to Sempra Energy are eliminated in Sempra Energy's consolidated financial statements for all three years.

The board of directors for each of Sempra Energy, SDG&E, PE and SoCalGas have the discretion to determine the payment and amount of future dividends. 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, 2009, Sempra Energy could have received combined loans and dividends of approximately \$140 million from SoCalGas and \$75 million from SDG&E.

CAPITALIZATION

TOTAL CAPITALIZATION AND DEBT-TO-CAPITALIZATION RATIOS

(Dollars in millions)

	As of December 31, 2009			
	Sempra Energy Consolidated	SDG&E	PE	SoCalGas
Total capitalization	\$ 17,981	\$ 5,665	\$ 3,522	\$ 3,060
Debt-to-capitalization ratio	48 %	48 %	37 %	42 %

Significant changes during 2009 that affected capitalization include the following:

- § Sempra Energy Consolidated: comprehensive income exceeding dividends, a net increase in long-term debt, and increases in short-term borrowings, offset by Sempra Pipelines & Storage's purchase of the remaining noncontrolling interest in Mississippi Hub
- § SDG&E: comprehensive income exceeding dividends, increases in long-term debt and noncontrolling interests
- § PE and SoCalGas: increase in comprehensive income, offset partially by a net decrease in long-term debt

We provide additional information about the significant changes in Notes 6 and 14 of the Notes to Consolidated Financial Statements and "Overall Results of Operations of Sempra Energy and Factors Affecting the Results" above.

COMMITMENTS

The following tables summarize principal contractual commitments at December 31, 2009 for Sempra Energy, SDG&E and PE/SoCalGas, respectively. We provide additional information about commitments above and in Notes 6, 9 and 17 of the Notes to Consolidated Financial Statements.

PRINCIPAL CONTRACTUAL COMMITMENTS OF SEMPR A ENERGY CONSOLIDATED					
<i>(Dollars in millions)</i>					
	2010	2011 and 2012	2013 and 2014	Thereafter	Total
Short-term debt	\$ 618	\$ -	\$ -	\$ -	618
Long-term debt	557	572	1,138	5,720	7,987
Interest on debt(1)	440	864	761	3,845	5,910
Due to unconsolidated affiliate	-	2	-	-	2
Operating leases	88	123	83	360	654
Capital leases	16	22	8	-	46
Litigation settlements	3	2	-	-	5
Purchased-power contracts	335	476	429	1,425	2,665
Natural gas contracts	1,162	448	93	176	1,879
LNG contracts(2)	1,659	2,040	2,142	18,215	24,056
Construction commitments	449	99	-	-	548
SONGS decommissioning	-	-	-	474	474
Other asset retirement obligations	35	36	36	732	839
Pension and other postretirement benefit obligations(3)	224	595	555	984	2,358
Environmental commitments	13	19	7	11	50
Other	17	21	17	20	75
Totals	\$ 5,616	\$ 5,319	\$ 5,269	\$ 31,962	\$ 48,166

(1) 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, 2009.

(2) Sempra LNG has LNG purchase agreements with Tangguh PSC and RasGas. The agreement with Tangguh PSC is for the supply of LNG equivalent to approximately 500 million cubic feet of natural gas per day from Tangguh PSC's Indonesian liquefaction facility to Sempra LNG's Energia Costa Azul LNG receipt terminal at a price based on the Southern California border index. The expected payments under the contract are based on forward prices of the Southern California border index plus an estimated 1 percent escalation per year. Sempra LNG has a contract to sell a portion of the volumes purchased from Tangguh PSC to Mexico's national electric company, CFE, at prices that are based on the Southern California border index for natural gas. The agreement with RasGas is for LNG cargoes to be delivered by RasGas to Sempra LNG's Cameron LNG receipt terminal. Under this agreement, RasGas has the option to deliver and sell up to 32 cargoes to Sempra LNG in 2010, at a price based on market prices in the U.S. Gulf of Mexico. We provide more information about these contracts in Note 17 of the Notes to Consolidated Financial Statements.

(3) Amounts are after reduction for the Medicare Part D subsidy and only include expected payments to the plans for the next 10 years.

PRINCIPAL CONTRACTUAL COMMITMENTS OF SDG&E*(Dollars in millions)*

	2010	2011 and 2012	2013 and 2014	Thereafter	Total
Short-term debt	\$ 33	\$ -	\$ -	\$ -	33
Long-term debt	40	22	152	2,434	2,648
Interest on debt(1)	133	278	280	1,798	2,489
Operating leases	20	36	29	58	143
Capital leases	5	10	5	-	20
Purchased-power contracts	335	476	429	1,425	2,665
Construction commitments	355	98	-	-	453
El Dorado purchase agreement	-	200	-	-	200
SONGS decommissioning	-	-	-	474	474
Other asset retirement obligations	5	10	10	91	116
Pension and other postretirement benefit obligations(2)	77	190	180	252	699
Environmental commitments	4	4	2	11	21
Totals	\$ 1,007	\$ 1,324	\$ 1,087	\$ 6,543	9,961

(1) SDG&E calculates expected interest payments using the stated interest rate for fixed-rate obligations, including floating-to-fixed interest rate swaps. SDG&E calculates expected interest payments for variable-rate obligations, including fixed-to-floating interest rate swaps, based on forward rates in effect at December 31, 2009.

(2) Amounts are after reduction for the Medicare Part D subsidy and only include expected payments to the plans for the next 10 years.

PRINCIPAL CONTRACTUAL COMMITMENTS OF PE AND SOCALGAS*(Dollars in millions)*

	2010	2011 and 2012	2013 and 2014	Thereafter	Total
SoCalGas					
Long-term debt	\$ -	\$ 507	\$ 250	\$ 511	1,268
Interest on debt(1)	60	106	74	349	589
Natural gas contracts	1,126	438	86	176	1,826
Operating leases	43	42	9	12	106
Capital leases	11	12	3	-	26
Construction commitments	47	1	-	-	48
Environmental commitments	9	14	5	-	28
Pension and other postretirement benefit obligations(2)	114	310	309	592	1,325
Asset retirement obligations	14	26	26	610	676
Total SoCalGas	1,424	1,456	762	2,250	5,892
PE - operating leases	7	-	-	-	7
Total PE consolidated	\$ 1,431	\$ 1,456	\$ 762	\$ 2,250	5,899

(1) SoCalGas calculates interest payments using the stated interest rate for fixed-rate obligations. SoCalGas calculates expected interest payments for variable-rate obligations, including fixed-to-floating interest rate swaps, based on forward rates in effect at December 31, 2009.

(2) Amounts are after reduction for the Medicare Part D subsidy and only include expected payments 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

§ \$70 million for Sempra Energy

§ \$14 million for SDG&E

§ \$11 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 8 of the Notes to Consolidated Financial Statements.

OFF BALANCE-SHEET ARRANGEMENTS

Sempra Energy has provided guarantees aggregating \$1.6 billion at December 31, 2009, to related parties, including the guarantee related to Rockies Express financing and continuing transitional guarantees related to RBS Sempra Commodities. We discuss these guarantees further in Notes 6 and 17 of the Notes to Consolidated Financial Statements.

CREDIT RATINGS

The table below shows the credit ratings of Sempra Energy and its principal subsidiaries, which credit ratings remained at investment grade levels in 2009. Also in 2009, Moody's upgraded SDG&E's and SoCalGas' secured debt rating from A1 to Aa3. On January 22, 2010, Fitch downgraded the rating on SDG&E's and SoCalGas' preferred stock from A+ to A and the rating on Pacific Enterprises preferred stock from A to BBB+. On February 2, 2010, Fitch placed Sempra Energy and its rated subsidiaries on rating watch negative; it stated that the rating "is driven by uncertainty regarding the operation and ownership of Sempra Energy's commodity trading and marketing joint venture with The Royal Bank of Scotland (RBS)." On February 16, 2010, Moody's and Standard & Poor's affirmed their ratings and stable outlooks for the companies.

CREDIT RATINGS OF SEMPRA ENERGY AND PRINCIPAL SUBSIDIARIES

	Standard & Poor's	Moody's Investor Services, Inc.	Fitch
SEMPRA ENERGY			
Unsecured debt	BBB+	Baa1	A
SDG&E			
Secured debt	A+	Aa3	AA
Unsecured debt	A	A2	AA-
Preferred stock	BBB+	Baa1	A
Commercial paper	A-1	P-1	F-1+
SoCalGas			
Secured debt	A+	Aa3	AA
Unsecured debt	A	A2	AA-
Preferred stock	BBB+	Baa1	A
Commercial paper	A-1	P-1	F-1+
PACIFIC ENTERPRISES			
Preferred Stock	BBB+	--	BBB+
SEMPRA GLOBAL			
Unsecured debt guaranteed by Sempra Energy	--	Baa1	A
Commercial paper guaranteed by Sempra Energy	A-2	P-2	F-1

FACTORS INFLUENCING FUTURE PERFORMANCE

SEMPRA ENERGY OVERVIEW

The Sempra Utilities' operations and Sempra Global's long-term contracts generally provide relatively stable earnings and liquidity. However, for the next few years, SDG&E and SoCalGas intend to limit their common stock dividends to reinvest their earnings in significant capital projects. Also, Sempra Generation's contract with the DWR, which provides a significant portion of Sempra Generation's revenues, ends in late 2011. Because it is unable to forecast with certainty future electricity prices and the cost of natural gas, contracts it enters into to replace the DWR contract, if obtained, or merchant (daily) sales may provide substantially lower earnings. Sempra Generation is also undertaking several projects for the construction of renewable generation facilities, with planned in-service dates ranging from late 2010 to 2011.

We expect that Sempra LNG and Sempra Pipelines & Storage will provide relatively stable earnings and liquidity from their current operations. Sempra Pipelines & Storage is also expected to provide earnings from construction programs when completed and other investments, but will require substantial funding for these investments. At Sempra Pipelines & Storage, we expect the write-off of certain assets of Liberty, as we discuss in Note 1 of the Notes to Consolidated Financial Statements, to have a minimal impact on future expected earnings. At Sempra LNG, until there are firm LNG supply or capacity services contracts that would utilize 100 percent of the capacity of Sempra LNG's Cameron receipt terminal, Sempra LNG will seek to purchase short-term LNG supplies, which may result in greater variability in revenues and earnings. Sempra LNG may also sell short-term capacity to third parties as opportunities arise.

The Sempra Utilities' performance will depend primarily on the ratemaking and regulatory process, environmental regulations, economic conditions, actions by the California legislature to address the state budget crisis 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. As the 2008 General Rate Case provides for fixed annual increases through 2011 rather than adjustments based on inflation indices as in the past, performance will depend on the Sempra Utilities' ability to manage costs, including bad debts. Starting in the third quarter of 2009, SDG&E's liability insurance premiums increased significantly, by approximately \$40 million annually, due to the increased costs of wildfire coverage. In addition to the increased insurance

premiums, Sempra Energy, including the Sempra Utilities, has substantially lower insurance coverage, particularly with respect to any future wildfire liabilities. The maximum loss recovery due to a wildfire incident from insurance carriers is now \$400 million compared to \$1.1 billion in the previous policy year. SDG&E filed a request with the CPUC in the third quarter of 2009 for recovery of the incremental insurance premiums, but without such recovery, our financial results could be adversely impacted.

In regard to the 2007 wildfire litigation, before giving effect to any amounts that it may recover from other defendants and potentially responsible parties, SDG&E expects that the aggregate costs that it may incur in resolving the remaining unreserved wildfire claims will substantially exceed its insurance coverage. If its liability for the three wildfires were to exceed the remaining insurance, SDG&E will file with the FERC and the CPUC to recover the excess amount from utility customers. SDG&E is continuing to evaluate the likelihood, amount and timing of any such recoveries.

If SDG&E were unable to conclude that recovery from utility customers is likely, either on a current basis or in the future, SDG&E's and therefore Sempra Energy's earnings would be materially adversely affected to the extent that it resolves wildfire claims or obtains sufficient information to establish reserves for amounts that exceed its remaining insurance, even though all or a portion of such amounts (including amounts already paid in settlements with homeowner insurers) may ultimately be recovered from other defendants and potentially responsible parties, or from utility customers in subsequent reporting periods. Cash flow would also be adversely affected by any delays in obtaining such recoveries. We provide additional information concerning these matters in Notes 16 and 17 of the Notes to Consolidated Financial Statements.

On April 1, 2008, we completed the formation of a partnership, RBS Sempra Commodities, to own and operate our commodities-marketing businesses, which generally comprised our Sempra Commodities segment. In November 2009, RBS announced its intention to divest its interest in the joint venture following a directive from the European Commission to dispose of certain assets. On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. These businesses have historically generated 40 to 60 percent of total earnings of the businesses in the partnership, and have averaged more than 50 percent. Our joint venture partner, RBS, continues to be obligated to provide the partnership with all growth capital, working-capital requirements and credit support, as we discuss above in "Capital Resources and Liquidity – Sempra Commodities."

In connection with the pending transaction discussed above, we and RBS entered into a letter agreement to negotiate, prior to closing of the transaction, definitive documentation to amend certain provisions of the Limited Liability Partnership Agreement dated April 1, 2008 between Sempra Energy and RBS (Partnership Agreement) to, among other things:

- § Consider the distribution of excess cash of the partnership to us and RBS
- § Eliminate each partner's preferred return (currently 15 percent per year) and to move to a 50/50 sharing of net income, if and when our invested capital is reduced to \$950 million or less by the return of capital to the partners
- § Terminate the restrictions on the partners' ability to transfer their partnership interests prior to April 2012 (but not the partners' right of first offer and other rights, including our tag-along right with respect to the transfer of that interest or the requirement that any transferee be reasonably acceptable to us)

As RBS continues to be obligated to divest its remaining interest in the partnership, the letter agreement also provides for negotiating the framework for the entertaining of bids for the remaining part of the partnership's business.

Future earnings and distributions from the partnership will depend on the profitability and growth achieved in the businesses remaining in the joint venture, primarily the North American power and natural gas trading businesses, and the continued ability of RBS to provide capital and credit support for the partnership. We provide additional information in Notes 3, 4, 6 and 20 of the Notes to Consolidated Financial Statements.

We may be further impacted by depressed and rapidly changing economic conditions. Moreover, the dollar has fluctuated significantly compared to some foreign currencies, especially in Mexico and South America where we have significant operations. These factors, coupled with very low natural gas prices which affect profitability at Sempra Generation and Sempra LNG, could, if they remain unchanged, adversely affect profitability. Additionally, given the uncertainty of commodity markets and the lack of debt financing for energy infrastructure, which impact related hedging activity, growth at RBS Sempra Commodities could be dampened.

We discuss additional matters that could affect our future performance in Notes 15 through 17 of the Notes to Consolidated Financial Statements.

LITIGATION

We describe legal proceedings which could adversely affect our future performance in Note 17 of the Notes to Consolidated Financial Statements.

SEMPRA UTILITIES -- INDUSTRY DEVELOPMENTS AND CAPITAL PROJECTS

We describe capital projects, electric and natural gas regulation and rates, and other pending proceedings and investigations that affect our business in Notes 15 and 16 of the Notes to Consolidated Financial Statements.

SEMPRA GLOBAL INVESTMENTS

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 Generation

Copper Mountain Solar

In July 2009, Sempra Generation announced that PG&E has contracted for 48 megawatts (MW) of solar power from Copper Mountain Solar, a new plant under development by Sempra Generation on land adjacent to the 10-MW El Dorado Energy Solar plant in Boulder City, Nevada. The CPUC approved the 20-year contract in December 2009. Construction has begun and is expected to be completed by late 2010.

Mesquite Solar

Mesquite Solar is a photovoltaic generation facility under development by Sempra Generation in Maricopa County, Arizona. When fully developed, the project will be capable of producing approximately 400 to 600 MW of solar power. Mesquite Solar will connect to the 500-kilovolt Hassayampa switchyard via our existing Mesquite Power natural gas generation plant. Construction of the first phase of 150 MW is expected to begin by late 2010 and be completed by late 2011.

Sempra Pipelines & Storage

Natural Gas Storage Projects

Currently, Sempra Pipelines & Storage has 11.4 Bcf of working natural gas storage capacity that is fully contracted and operational. We are in construction to increase operational capacity by 12.5 Bcf by the end of 2010 (for a total of 24 Bcf) and we plan to develop as much as 75 Bcf of total storage capacity by 2015.

Sempra Pipelines & Storage's natural gas storage facilities and projects include

- § Bay Gas Storage Company (Bay Gas), a facility located 40 miles north of Mobile, Alabama, that provides underground storage and delivery of natural gas. Sempra Pipelines & Storage owns 91 percent of the project. It is the easternmost storage facility on the Gulf Coast, with direct service to the Florida market.
- § Mississippi Hub storage facility, currently under construction in Simpson County, Mississippi, an underground salt-dome natural gas storage project with planned direct interconnections to the natural gas production areas in eastern Texas, Oklahoma and Arkansas, as well as the Northeast market.
- § Liberty Gas Storage Expansion, a salt cavern facility in Cameron Parish, Louisiana. Sempra Pipelines & Storage owns 75 percent of the project and ProLiance Transportation LLC (ProLiance) owns the remaining 25 percent. The project's location provides access to several LNG facilities in the area.

Acquisition of Mexican Pipeline and Natural Gas Infrastructure Assets

On February 24, 2010, Sempra Pipelines & Storage announced that it will acquire the Mexican pipeline and natural gas infrastructure assets of El Paso Corporation for \$300 million.

The acquisition involves El Paso Corporation's wholly owned natural gas pipeline and compression assets in the Mexican border state of Sonora. The transaction also includes El Paso Corporation's 50-percent interest in a joint venture with PEMEX, the Mexican-state owned oil company. The joint venture operates two natural gas pipelines and a propane system in northern Mexico.

The pipeline and natural gas infrastructure assets being acquired are supported by customer contracts with an average duration of 13 years. Subject to approval by lenders and Mexican regulatory authorities, the acquisition is expected to be completed in the second quarter of 2010.

Sempra LNG

Energía Costa Azul LNG Receipt Terminal

Sempra LNG's Energía Costa Azul LNG receipt terminal in Baja California, Mexico, with a capacity of 1 Bcf of natural gas per day, began commercial operations in May 2008. Sempra LNG has received approvals from key governmental agencies to expand the terminal capacity to 2.5 Bcf per day. The ultimate scope and timing of a proposed expansion project will depend on the outcome of negotiations for supply and/or terminal capacity agreements.

MARKET RISK

Market risk is the risk of erosion of our cash flows, earnings, asset values and equity due to adverse changes in prices for various commodities and in interest rates. Sempra Energy also may be adversely affected by changes in foreign-currency rates.

Risk Policies

Sempra Energy has policies governing its market risk management and trading activities. As required by CPUC and FERC affiliate compliance rules, Sempra Energy and the Sempra Utilities maintain separate and

independent risk management committees, organizations and processes for each of the Sempra 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 detailed information for market positions that create credit, liquidity and market risk. Independently from our energy procurement departments, the respective oversight organizations and committees separately monitor energy price risk management, and measure and report the credit, liquidity and market risk associated with these positions.

Along with other tools, we use Value at Risk (VaR) to measure our exposure to market risk. 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. VaR is calculated independently by the respective risk management oversight organizations. We use historical and implied volatilities and correlations between instruments and positions in our calculations.

The Sempra Utilities use energy and natural gas derivatives to manage natural gas and energy price risk associated with servicing load requirements. The use of energy 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 energy 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 2008, we completed the formation of RBS Sempra Commodities, a partnership that owns and operates the commodities-marketing businesses previously held by us as subsidiaries. We now account for our investment in the partnership under the equity method. As a result, we no longer include on our Consolidated Balance Sheet the commodities and financial instruments related to these businesses that subjected us to commodities price risk and credit risk. However, the joint venture partnership is still subject to these risks, which could impact our portion of partnership earnings.

In addition, as a transitional measure, Sempra Energy continues to provide back-up guarantees and credit support for RBS Sempra Commodities, as we discuss above in "Capital Resources and Liquidity" and in Note 6 of the Notes to Consolidated Financial Statements.

We discuss revenue recognition in Notes 1 and 11 of the Notes to Consolidated Financial Statements and the additional market-risk information regarding derivative instruments in Note 11 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, 2009, 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.

Sempra Global is generally exposed to commodity price risk indirectly through its LNG, natural gas pipeline and storage, and power generating assets. Sempra Global 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 Sempra Utilities' market-risk exposure is limited due to CPUC-authorized rate recovery of the costs of commodity purchases, 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 16 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 Sempra Utilities manage their risk within the parameters of their market risk management framework. As of December 31, 2009, the total VaR of the Sempra 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.

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 and capital lease obligations, at December 31, 2009 and 2008:

(Dollars in millions)	Nominal	One-Year	Nominal	One-Year	Nominal	One-Year
	Debt	VaR(1)	Debt	VaR(1)	Debt	VaR(1)
At December 31, 2009						
Utility fixed-rate	\$ 3,067	\$ 369	\$ 1,954	\$ 273	\$ 1,113	\$ 97
Utility variable-rate	848	43	698	43	150	-
Non-utility, fixed-rate and variable-rate	4,075	392	-	-	-	-
At December 31, 2008						
Utility fixed-rate	\$ 3,023	\$ 657	\$ 1,910	\$ 430	\$ 1,113	\$ 229
Utility variable-rate	486	64	236	69	250	6
Non-utility, fixed-rate and variable-rate	2,829	467	-	-	-	-

(1) After the effects of interest rate swaps.

At December 31, 2009, the total notional amount of interest rate swap transactions ranged from \$75 million to \$355 million at Sempra Energy and \$285 million to \$375 million at SDG&E (ranges relate to amortizing notional amounts). At December 31, 2009, SoCalGas' total notional amount of interest rate swap transactions was \$150 million. We provide further information about interest rate swap transactions in Note 11 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 Sempra 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 that govern the management of credit risk which are administered by the respective credit departments for each of the Sempra Utilities and 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 under certain circumstances
- § the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty
- § other security such as lock-box liens and downgrade triggers

We believe that we have provided adequate reserves for counterparty nonperformance.

As we describe in Note 17 of the Notes to Consolidated Financial Statements, Sempra Generation has a contract with the DWR to supply up to 1,900 MW of power to the state of California over 10 years, which began in 2001. This contract results in a significant potential nonperformance exposure with a single counterparty; however, this risk has been addressed and mitigated by the liquidated damages provision of the contract.

When they become operational, development projects at Sempra Global 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.

The Mexican subsidiaries have U.S. dollar receivables and payables that give rise to foreign exchange movements for accounting principles generally accepted in Mexico and tax purposes. In addition, monetary assets and liabilities are adjusted for inflation for Mexican tax purposes. The fluctuations in foreign currency and inflation are subject to Mexican taxes and expose us to significant fluctuations in tax expense from changes in the exchange and inflation rates in Mexico.

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.

Our net investment in our Latin American operating companies and the resulting cash flows are partially protected against normal exchange-rate fluctuations by rate-setting mechanisms that are intended to compensate for local inflation and currency exchange-rate fluctuations. In addition, we 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 effects of a hypothetical simultaneous 10 percent appreciation in the U.S. dollar from year-end 2009 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 2009 earnings to U.S. dollars	\$	(6)
Transactional exposures		(3)
Translation of net assets of foreign subsidiaries and investments in foreign entities		(60)

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 amounts 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 17 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)**REGULATORY ACCOUNTING**

Assumptions & Approach Used	<p>The Sempra Utilities record a regulatory asset if it is probable that, through the ratemaking process, the utility will recover that asset from customers. Similarly, regulatory liabilities are recorded for amounts recovered in rates in advance of the expenditure. The Sempra Utilities review probabilities associated with regulatory balances whenever new events occur, such as:</p> <ul style="list-style-type: none">§ changes in the regulatory 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	Details of the Sempra Utilities' regulatory assets and liabilities are discussed in Note 1 of the Notes to Consolidated Financial Statements.

INCOME TAXES

Assumptions & Approach Used	<p>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</p> <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§ 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 8 of the Notes to Consolidated Financial Statements.</p>

SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)**INCOME TAXES (CONTINUED)**

Assumptions & Approach Used	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.
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 8 of the Notes to Consolidated Financial Statements.</p>

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	The application of hedge accounting to certain derivatives and the normal purchase or sale 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 our results of operations. The effects of derivatives accounting have a significant impact on Sempra Energy's consolidated balance sheet but have no significant effect on the Sempra Utilities' results of operations because of regulatory accounting principles and the application of the normal purchase or sale election. We provide details of our financial instruments in Note 11 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)**DEFINED BENEFIT PLANS**

Assumptions & Approach Used	<p>To measure our pension and 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 rate § expected return on plan assets § health-care cost trend rates § mortality rates § rate of compensation increases § payout elections (lump sum or annuity)
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 Sempra 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 25 basis point increase or decrease in the assumed discount rate would be \$2 million and the effect of a 25 basis point increase or decrease in the assumed rate of return on plan assets would be less than \$1 million.</p> <p>We provide information about the impact of increases and decreases in the health-care cost trend rate in Note 9 of the Notes to Consolidated Financial Statements.</p>

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
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	<ul style="list-style-type: none"> § inflation adjustment applied to estimated cash flows § discount rate based on a credit-adjusted risk-free rate § expected date of decommissioning
Effect if Different Assumptions Used	<p>Changes in these factors could materially affect the obligation recorded to reflect the ultimate cost associated with retiring the assets. For example, if the discount rate increased by 100 basis points, this would decrease the balance for the ARO by 18 percent. Conversely, a decrease in the discount rate by 100 basis points would increase the ARO by approximately 22 percent. However, due to regulatory recovery of SDG&E's nuclear decommissioning expense, rate-making accounting treatment is applied to SDG&E's nuclear decommissioning activities, so they have no impact on SDG&E's reported earnings.</p> <p>We provide additional detail in Note 7 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 applied valuation techniques. We discuss impairment of long-lived assets in Note 1 of the Notes to Consolidated Financial Statements.</p>

CARRYING VALUE OF EQUITY METHOD INVESTMENTS

Assumptions & Approach Used	<p>We 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. We discuss goodwill related to unconsolidated subsidiaries in Note 4 of the Notes to Consolidated Financial Statements.</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 include</p> <ul style="list-style-type: none"> § the prospects for an energy trading enterprise § the appropriate risk-adjusted discount rate § the availability and costs of natural gas § competing fuels (primarily propane) and electricity
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 Note 4 of the Notes to Consolidated Financial Statements.</p>

KEY NONCASH PERFORMANCE INDICATORS

A discussion of key noncash performance indicators related to each business unit follows:

Sempra 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 Commodities

Prior to the sale of our commodities-marketing businesses to RBS Sempra Commodities as discussed in Note 3, Sempra Commodities did not use noncash performance factors. Its key indicators were profit margins by product line and by geographic area.

Sempra Generation

Key noncash performance indicators include plant availability factors at the generating plants. For competitive reasons, Sempra Generation does not disclose its plant availability factors. Additional noncash performance indicators include goals related to safety and environmental considerations.

Sempra Pipelines & Storage

Key noncash performance indicators for Sempra Pipelines & Storage's consolidated operations include natural gas sales volume, facility availability, capacity utilization, and for some Mexican pipeline operations, customer count. We discuss these above in "Our Business" and "Factors Influencing Future Performance." Additional noncash performance indicators include goals related to safety, environmental considerations, and regulatory compliance.

Sempra LNG

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, 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 date of this report.

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

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

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

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

§ capital markets conditions and inflation, interest and exchange rates;

§

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

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

§ weather conditions and conservation efforts;

§ war and terrorist attacks;

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

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

§ the timing and success of business development efforts;

§ 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.

COMMON STOCK DATA

SEMPRA ENERGY COMMON STOCK

Our common stock is traded on the New York Stock Exchange. At February 23, 2010, there were 42,000 record holders of our common stock.

The following table shows Sempra Energy quarterly common stock data:

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009					
Market price					
High	\$	46.96 \$	50.90 \$	53.00 \$	57.18
Low	\$	36.43 \$	43.94 \$	46.84 \$	48.90
2008					
Market price					
High	\$	63.00 \$	59.96 \$	58.99 \$	51.21
Low	\$	48.58 \$	53.02 \$	43.35 \$	34.29

We declared dividends of \$0.39 per share in each quarter of 2009. We declared dividends of \$0.32 per share in the first quarter of 2008 and \$0.35 per share in each of the remaining quarters of 2008.

PE, SOCALGAS AND SDG&E COMMON STOCK

Sempra Energy owns all of PE's issued and outstanding common stock. PE owns all of the common stock of SoCalGas. 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 PE, SoCalGas and SDG&E is included in each of their "Statements of Consolidated Comprehensive Income and Changes in Equity" set forth in the Consolidated Financial Statements.

DIVIDEND RESTRICTIONS

The payment and the amount of future dividends for Sempra Energy, SDG&E, PE, and SoCalGas are within the discretion of their boards of directors. As a result of their projected capital expenditure programs, SDG&E elected to suspend the payment of dividends on its common stock to Sempra Energy in 2008 and 2007, and SoCalGas elected to suspend the payment of dividends on its common stock in 2009. However, in 2009, SDG&E paid dividends on its common stock to Sempra Energy due to the extended review period associated with the Sunrise Powerlink project and the resultant delay in initiating construction activities. Future common dividends from SDG&E, PE and SoCalGas may be limited to reduce the amount of debt financing required during periods of increased capital expenditures. The CPUC's regulation of the Sempra Utilities' capital structures limits the amounts that the Sempra Utilities can pay us in the form of loans and dividends.

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, 2009, with the performance over the same period of the Standard & Poor's 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, 2004, and the reinvestment of all dividends.

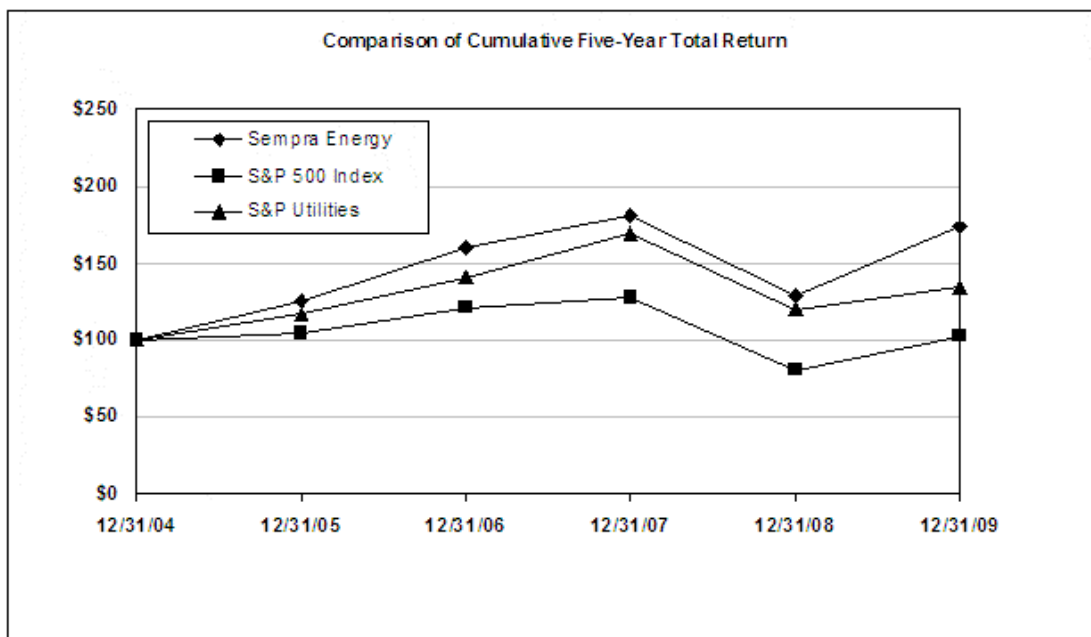


Figure 2: Comparison of Cumulative Five-Year Total Return

FIVE-YEAR SUMMARIES

The following tables present selected financial data of Sempra Energy, SDG&E, PE and SoCalGas for the five years ended December 31, 2009. 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 SEMPR ENERGY

(In millions, except for per share amounts)

	At December 31 or for the years then ended				
	2009	2008	2007	2006	2005
Sempra Energy Consolidated					
Revenues					
Sempra Utilities:					
Natural gas	\$ 3,801	\$ 5,419	\$ 4,869	\$ 4,763	\$ 5,253
Electric	2,419	2,553	2,184	2,136	1,789
Sempra Global and parent	1,886	2,786	4,385	4,862	4,470
Total revenues	<u>\$ 8,106</u>	<u>\$ 10,758</u>	<u>\$ 11,438</u>	<u>\$ 11,761</u>	<u>\$ 11,512</u>
Income from continuing operations(1)	\$ 1,122	\$ 1,068	\$ 1,118	\$ 1,101	\$ 923
Losses from continuing operations attributable to noncontrolling interests(1)	7	55	17	-	-
Preferred dividends of subsidiaries	(10)	(10)	(10)	(10)	(10)
Income from continuing operations attributable to common shares(1)	<u>\$ 1,119</u>	<u>\$ 1,113</u>	<u>\$ 1,125</u>	<u>\$ 1,091</u>	<u>\$ 913</u>
Net income(1)	\$ 1,122	\$ 1,068	\$ 1,092	\$ 1,416	\$ 930
Earnings attributable to common shares(1)	\$ 1,119	\$ 1,113	\$ 1,099	\$ 1,406	\$ 920
Attributable to common shares:					
Income from continuing operations:					
Basic	\$ 4.60	\$ 4.50	\$ 4.34	\$ 4.25	\$ 3.71
Diluted	\$ 4.52	\$ 4.43	\$ 4.26	\$ 4.17	\$ 3.62
Earnings:					
Basic	\$ 4.60	\$ 4.50	\$ 4.24	\$ 5.48	\$ 3.74
Diluted	\$ 4.52	\$ 4.43	\$ 4.16	\$ 5.38	\$ 3.65
Dividends declared per common share	\$ 1.56	\$ 1.37	\$ 1.24	\$ 1.20	\$ 1.16
Return on common equity	13.2 %	13.6 %	13.9 %	20.6 %	16.7 %
Effective income tax rate(1)	29 %	30 %	34 %	33 %	4 %
Price range of common shares:					
High	\$ 57.18	\$ 63.00	\$ 66.38	\$ 57.35	\$ 47.86
Low	36.43	34.29	50.95	42.90	35.53
Weighted average rate base					
SoCalGas	\$ 2,758	\$ 2,702	\$ 2,642	\$ 2,477	\$ 2,386
SDG&E	\$ 4,362	\$ 4,050	\$ 3,846	\$ 3,474	\$ 2,902
AT DECEMBER 31					
Current assets	\$ 2,295	\$ 2,476	\$ 9,964	\$ 10,766	\$ 12,827
Total assets	\$ 28,512	\$ 26,400	\$ 28,717	\$ 27,699	\$ 28,246
Current liabilities	\$ 3,888	\$ 3,612	\$ 9,020	\$ 9,099	\$ 11,253
Long-term debt (excludes current portion)	\$ 7,460	\$ 6,544	\$ 4,553	\$ 4,525	\$ 4,815
Short-term debt(2)	\$ 1,191	\$ 913	\$ 1,071	\$ 933	\$ 1,141
Contingently redeemable preferred stock of subsidiary(1)	\$ 79	\$ 79	\$ 79	\$ 79	\$ 79
Sempra Energy shareholders' equity	\$ 9,007	\$ 7,969	\$ 8,339	\$ 7,511	\$ 6,160
Common shares outstanding	246.5	243.3	261.2	262.0	257.2
Book value per share	<u>\$ 36.54</u>	<u>\$ 32.75</u>	<u>\$ 31.93</u>	<u>\$ 28.67</u>	<u>\$ 23.95</u>

(1) As adjusted in 2005 through 2008 for the retrospective adoption of ASC 810 (SFAS 160).

(2) Includes long-term debt due within one year.

We discuss the impact of natural gas prices on revenues in 2009 and 2008 in "Changes in Revenues, Costs and Earnings" in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

On April 1, 2008, we sold our commodities-marketing businesses into a joint venture, and began accounting for these businesses under the equity method. We discuss this transaction further in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

We discuss discontinued operations in Note 5 of the Notes to Consolidated Financial Statements, and litigation and other contingencies in Note 17 of the Notes to Consolidated Financial Statements.

Net Income and Earnings Attributable to Common Shares in 2006 include \$315 million in after-tax income from discontinued operations, primarily due to asset sales.

FIVE-YEAR SUMMARIES (CONTINUED)

FIVE-YEAR SUMMARIES OF SELECTED FINANCIAL DATA FOR SDG&E, PE AND SOCIALGAS

(Dollars in millions)

	At December 31 or for the years then ended				
	2009	2008	2007	2006	2005
SDG&E					
Statement of Operations Data:					
Operating revenues	\$ 2,916	\$ 3,251	\$ 2,852	\$ 2,785	\$ 2,512
Operating income	\$ 589	\$ 570	\$ 500	\$ 477	\$ 393
Dividends on preferred stock	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5
Earnings attributable to common shares	\$ 344	\$ 339	\$ 283	\$ 237	\$ 262
Balance Sheet Data:					
Total assets	\$ 10,229	\$ 9,079	\$ 8,499	\$ 7,794	\$ 7,489
Long-term debt (excludes current portion)	\$ 2,623	\$ 2,142	\$ 1,958	\$ 1,638	\$ 1,455
Short-term debt(1)	\$ 78	\$ 2	\$ -	\$ 138	\$ 66
Preferred stock subject to mandatory redemption	\$ -	\$ -	\$ 14	\$ 17	\$ 19
Contingently redeemable preferred stock(2)	\$ 79	\$ 79	\$ 79	\$ 79	\$ 79
SDG&E shareholders' equity(2)	\$ 2,739	\$ 2,542	\$ 2,200	\$ 1,915	\$ 1,483
PE					
Statement of Operations Data:					
Operating revenues	\$ 3,355	\$ 4,768	\$ 4,282	\$ 4,181	\$ 4,617
Operating income	\$ 476	\$ 435	\$ 436	\$ 439	\$ 347
Dividends on preferred stock	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4
Earnings attributable to common shares	\$ 265	\$ 248	\$ 238	\$ 235	\$ 221
Balance Sheet Data:					
Total assets	\$ 7,834	\$ 7,907	\$ 6,802	\$ 6,841	\$ 6,531
Long-term debt (excludes current portion)	\$ 1,283	\$ 1,270	\$ 1,113	\$ 1,107	\$ 1,100
Short-term debt(1)	\$ 11	\$ 100	\$ -	\$ -	\$ 96
PE shareholders' equity(2)	\$ 2,208	\$ 1,940	\$ 1,916	\$ 1,930	\$ 1,834
SoCalGas					
Statement of Operations Data:					
Operating revenues	\$ 3,355	\$ 4,768	\$ 4,282	\$ 4,181	\$ 4,617
Operating income	\$ 476	\$ 434	\$ 437	\$ 439	\$ 347
Dividends on preferred stock	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Earnings attributable to common shares	\$ 273	\$ 244	\$ 230	\$ 223	\$ 211
Balance Sheet Data:					
Total assets	\$ 7,287	\$ 7,351	\$ 6,406	\$ 6,359	\$ 6,007
Long-term debt (excludes current portion)	\$ 1,283	\$ 1,270	\$ 1,113	\$ 1,107	\$ 1,100
Short-term debt(1)	\$ 11	\$ 100	\$ -	\$ -	\$ 96
SoCalGas shareholders' equity	\$ 1,766	\$ 1,490	\$ 1,470	\$ 1,490	\$ 1,417

(1) Includes long-term debt due within one year.

(2) As adjusted in 2005 through 2008 for the retrospective adoption of ASC 810 (SFAS 160).

We discuss the impact of natural gas prices on revenues in 2009 and 2008 in "Changes in Revenues, Costs and Earnings" in "Management's Discussion and Analysis of Financial Condition and Results of Operations." We do not provide per-share data for SDG&E, Pacific Enterprises and SoCalGas, because the common stock of each of them is directly or indirectly wholly owned by Sempra Energy.

We discuss litigation and other contingencies in Note 17 of the Notes to Consolidated Financial Statements.

CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

SEMPRA ENERGY, SDG&E, PE, SOCIALGAS

Sempra Energy, SDG&E, PE and SoCalGas have designed and maintain disclosure controls and procedures to ensure that information required to be disclosed in their respective reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the management of each company, including each respective Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, the management of each company recognizes that any system of controls and procedures, no matter how well designed and operated, can provide

only reasonable assurance of achieving the desired control objectives; therefore, the management of each company applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures.

Under the supervision and with the participation of management, including the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E, PE and SoCalGas, each company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of December 31, 2009, 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, PE and SoCalGas concluded that their respective company's disclosure controls and procedures were effective at the reasonable assurance level.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

SEMPRA ENERGY, SDG&E, PE, 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* 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, 2009. Deloitte & Touche, LLP audited the effectiveness of each company's internal control over financial reporting as of December 31, 2009, 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

Not applicable.

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, 2009, based on criteria established in *Internal Control — Integrated Framework* 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, 2009, based on the criteria established in *Internal Control — Integrated Framework* 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, 2009 of the Company and our report dated February 25, 2010, expressed an unqualified opinion on those financial statements.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2010

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, 2009 and 2008, and the related consolidated statements of operations, comprehensive income and changes in equity, and cash flows for each of the three years in the period ended December 31, 2009. 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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, 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, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2010

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

We have audited the internal control over financial reporting of San Diego Gas & Electric Company and subsidiary (the "Company") as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* 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, 2009, based on the criteria established in *Internal Control — Integrated Framework* 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, 2009 of the Company and our report dated February 25, 2010, expressed an unqualified opinion on those financial statements.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2010

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

We have audited the accompanying consolidated balance sheets of San Diego Gas & Electric Company and subsidiary (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, comprehensive income and changes in equity, and cash flows for each of the three years in the period ended December 31, 2009. 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 and subsidiary as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, 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, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2010

To the Board of Directors and Shareholders of Pacific Enterprises:

We have audited the internal control over financial reporting of Pacific Enterprises and subsidiaries (the "Company") as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* 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, 2009, based on the criteria established in *Internal Control — Integrated Framework* 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, 2009 of the Company and our report dated February 25, 2010, expressed an unqualified opinion on those financial statements.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2010

To the Board of Directors and Shareholders of Pacific Enterprises:

We have audited the accompanying consolidated balance sheets of Pacific Enterprises and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, comprehensive income and changes in equity, and cash flows for each of the three years in the period ended December 31, 2009. 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 Pacific Enterprises and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, 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, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2010

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, 2009, based on criteria established in *Internal Control — Integrated Framework* 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, 2009, based on the criteria established in *Internal Control — Integrated Framework* 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, 2009 of the Company and our report dated February 25, 2010, expressed an unqualified opinion on those financial statements.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2010

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, 2009 and 2008, and the related consolidated statements of operations, comprehensive income and changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. 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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, 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, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2010

SEMPRA ENERGY			
CONSOLIDATED STATEMENTS OF OPERATIONS			
<i>(Dollars in millions, except per share amounts)</i>			
	Years ended December 31,		
	2009	2008*	2007*
REVENUES			
Sempra Utilities	\$ 6,220	\$ 7,972	\$ 7,053
Sempra Global and parent	1,886	2,786	4,385
Total revenues	<u>8,106</u>	<u>10,758</u>	<u>11,438</u>
EXPENSES AND OTHER INCOME			
Sempra Utilities:			
Cost of natural gas	(1,530)	(3,244)	(2,763)
Cost of electric fuel and purchased power	(672)	(900)	(699)
Sempra Global and parent:			
Cost of natural gas, electric fuel and purchased power	(976)	(1,671)	(1,302)
Other cost of sales	(80)	(182)	(988)
Operation and maintenance	(2,474)	(2,536)	(3,032)
Depreciation and amortization	(775)	(687)	(686)
Franchise fees and other taxes	(296)	(312)	(295)
Gains on sale of assets	3	114	6
Write-off of long-lived assets	(132)	-	-
Equity earnings (losses):			
RBS Sempra Commodities LLP	463	383	-
Other	36	37	(9)
Other income (expense), net	149	(109)	73
Interest income	21	45	72
Interest expense	(367)	(253)	(272)
Income from continuing operations before income taxes and equity earnings of certain unconsolidated subsidiaries			
	1,476	1,443	1,543
Income tax expense	(422)	(438)	(524)
Equity earnings, net of income tax	68	63	99
Income from continuing operations	<u>1,122</u>	<u>1,068</u>	<u>1,118</u>
Discontinued operations, net of income tax	-	-	(26)
Net income	<u>1,122</u>	<u>1,068</u>	<u>1,092</u>
Losses attributable to noncontrolling interests	7	55	17
Preferred dividends of subsidiaries	(10)	(10)	(10)
Earnings	<u>\$ 1,119</u>	<u>\$ 1,113</u>	<u>\$ 1,099</u>

Basic earnings per common share:			
Continuing operations attributable to common shares	\$ 4.60	\$ 4.50	\$ 4.34
Discontinued operations, net of income tax	-	-	(0.10)
Basic earnings per common share	\$ 4.60	\$ 4.50	\$ 4.24
Weighted-average number of shares outstanding (thousands)	243,339	247,387	259,269
Diluted earnings per common share:			
Continuing operations attributable to common shares	\$ 4.52	\$ 4.43	\$ 4.26
Discontinued operations, net of income tax	-	-	(0.10)
Diluted earnings per common share	\$ 4.52	\$ 4.43	\$ 4.16
Weighted-average number of shares outstanding (thousands)	247,384	251,159	264,004
Dividends declared per share of common stock	\$ 1.56	\$ 1.37	\$ 1.24

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 110	\$ 331
Short-term investments	-	176
Restricted cash	35	27
Trade accounts receivable, net	971	903
Other accounts and notes receivable, net	159	78
Due from unconsolidated affiliates	41	4
Income taxes receivable	221	195
Deferred income taxes	10	31
Inventories	197	320
Regulatory assets	54	121
Fixed-price contracts and other derivatives	77	160
Insurance receivable related to wildfire litigation (Note 17)	273	-
Other	147	130
Total current assets	<u>2,295</u>	<u>2,476</u>
Investments and other assets:		
Regulatory assets arising from fixed-price contracts and other derivatives	241	264
Regulatory assets arising from pension and other postretirement benefit obligations	959	1,188
Other regulatory assets	603	534
Nuclear decommissioning trusts	678	577
Investment in RBS Sempra Commodities LLP	2,172	2,082
Other investments	2,151	1,166
Goodwill and other intangible assets	524	539
Sundry	608	709
Total investments and other assets	<u>7,936</u>	<u>7,059</u>
Property, plant and equipment:		
Property, plant and equipment	25,034	23,153
Less accumulated depreciation and amortization	<u>(6,753)</u>	<u>(6,288)</u>
Property, plant and equipment, net	<u>18,281</u>	<u>16,865</u>
Total assets	<u>\$ 28,512</u>	<u>\$ 26,400</u>

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	December 31, 2009	December 31, 2008*
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 618	\$ 503
Accounts payable - trade	522	606
Accounts payable - other	171	250
Due to unconsolidated affiliates	29	38
Dividends and interest payable	190	156
Accrued compensation and benefits	264	280
Regulatory balancing accounts, net	382	335
Current portion of long-term debt	573	410
Fixed-price contracts and other derivatives	95	180
Customer deposits	145	170
Reserve for wildfire litigation (Note 17)	270	-
Other	629	684
Total current liabilities	<u>3,888</u>	<u>3,612</u>
Long-term debt	<u>7,460</u>	<u>6,544</u>
Deferred credits and other liabilities:		
Due to unconsolidated affiliate	2	102
Customer advances for construction	146	155
Pension and other postretirement benefit obligations, net of plan assets	1,252	1,487
Deferred income taxes	1,318	946
Deferred investment tax credits	54	57
Regulatory liabilities arising from removal obligations	2,557	2,430
Asset retirement obligations	1,277	1,159
Other regulatory liabilities	181	219
Fixed-price contracts and other derivatives	312	392
Deferred credits and other	735	909
Total deferred credits and other liabilities	<u>7,834</u>	<u>7,856</u>
Contingently redeemable preferred stock of subsidiary	<u>79</u>	<u>79</u>
Commitments and contingencies (Note 17)		
Equity:		
Preferred stock (50 million shares authorized; none issued)	-	-
Common stock (750 million shares authorized; 247 million and 243 million shares outstanding at December 31, 2009 and December 31, 2008, respectively; no par value)	2,418	2,265
Retained earnings	6,971	6,235
Deferred compensation	(13)	(18)
Accumulated other comprehensive income (loss)	(369)	(513)
Total Sempra Energy shareholders' equity	<u>9,007</u>	<u>7,969</u>
Preferred stock of subsidiaries	100	100
Other noncontrolling interests	144	240
Total equity	<u>9,251</u>	<u>8,309</u>
Total liabilities and equity	<u>\$ 28,512</u>	<u>\$ 26,400</u>

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).
See Notes to Consolidated Financial Statements.

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

	Years ended December 31,		
	2009	2008*	2007*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,122	\$ 1,068	\$ 1,092
Adjustments to reconcile net income to net cash provided by operating activities:			
Discontinued operations	-	-	26
Depreciation and amortization	775	687	686
Gains on sale of assets	(3)	(114)	(6)
Deferred income taxes and investment tax credits	295	324	149
Noncash rate-reduction bond expense	-	-	55
Equity earnings	(567)	(483)	(90)
Write-off of long-lived assets	132	-	-
Fixed-price contracts and other derivatives	(30)	46	8
Other	(45)	150	55
Net change in other working capital components	(256)	(483)	25
Distributions from RBS Sempra Commodities LLP	407	85	-
Changes in other assets	139	(15)	22
Changes in other liabilities	(94)	(74)	79
Net cash provided by continuing operations	1,875	1,191	2,101
Net cash used in discontinued operations	-	-	(3)
Net cash provided by operating activities	1,875	1,191	2,098
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(1,912)	(2,061)	(2,011)
Proceeds from sale of assets from continuing operations, net of cash sold	179	2,295	103
Expenditures for investments and acquisition of businesses, net of cash acquired	(939)	(2,675)	(121)
Distributions from investments	23	34	18
Purchases of nuclear decommissioning and other trust assets	(267)	(485)	(646)
Proceeds from sales by nuclear decommissioning and other trusts	230	469	613
Decrease in notes receivable from unconsolidated affiliate	100	60	-
Purchase of bonds issued by unconsolidated affiliate	(50)	-	-
Other	(36)	(23)	(29)
Net cash used in investing activities	(2,672)	(2,386)	(2,073)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(341)	(339)	(316)
Preferred dividends paid by subsidiaries	(10)	(10)	(10)
Issuances of common stock	73	18	40
Repurchases of common stock	(22)	(1,018)	(185)
Issuances of debt (maturities greater than 90 days)	2,151	1,706	404
Payments on debt (maturities greater than 90 days)	(435)	(19)	(1,072)
(Decrease) increase in short-term debt, net	(659)	564	812
Payments on notes payable to unconsolidated affiliate	(100)	(60)	-
Purchase of noncontrolling interest	(94)	-	-
Other	13	16	21
Net cash provided by (used in) financing activities	576	858	(306)
Decrease in cash and cash equivalents	(221)	(337)	(281)
Cash and cash equivalents, January 1	331	668	920
Cash assumed in connection with initial consolidation of variable interest entity	-	-	29
Cash and cash equivalents, December 31	\$ 110	\$ 331	\$ 668

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY

STATEMENTS OF CONSOLIDATED CASH FLOWS (CONTINUED)

(Dollars in millions)

	Years ended December 31,		
	2009	2008*	2007
CHANGES IN OTHER WORKING CAPITAL COMPONENTS			
(Excluding cash and cash equivalents, and debt due within one year)			
Accounts and notes receivable	\$ (190)	\$ 110	\$ (63)
Net trading assets	-	(4)	303
Income taxes, net	(17)	13	(73)
Inventories	124	(75)	(9)
Regulatory balancing accounts	42	(138)	120
Regulatory assets and liabilities	(1)	1	-
Other current assets	685	71	(109)
Accounts payable	(109)	(526)	(82)
Other current liabilities	(790)	65	(62)
Net changes in other working capital components	\$ (256)	\$ (483)	\$ 25
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 326	\$ 233	\$ 380
Income tax payments, net of refunds	112	114	443
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Acquisition of business:			
Assets acquired	\$ -	\$ 1,307	\$ -
Cash paid, net of cash acquired	-	(495)	-
Noncontrolling interests	-	(86)	-
Liabilities assumed	\$ -	\$ 726	\$ -
Increase in capital lease obligations for investments in property, plant and equipment	\$ 50	\$ -	\$ -
Dividends declared but not paid	99	88	84
Fair value of stock received for services rendered	-	-	32
Fair value of stock received for sale of investments	-	-	26

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CHANGES IN EQUITY

(Dollars in millions)

	Years ended December 31, 2009, 2008* and 2007*						
	Common Stock	Retained Earnings	Deferred Compen- sation Relating to ESOP	Accumulated Other Compre- hensive Income (Loss)	Sempra Energy Shareholders' Equity	Non- controlling Interests	Total Equity
Balance at December 31, 2006	\$ 3,245	\$ 4,681	\$ (25)	\$ (390)	\$ 7,511	\$ 111	\$ 7,622
Net income (loss)		1,109			1,109	(17)	1,092
Comprehensive income adjustments:							
Foreign currency translation adjustments				38	38		38
Available-for-sale securities				10	10		10
Pension and other postretirement benefits				15	15		15
Financial instruments				26	26		26
Comprehensive income (loss)				89	1,198	(17)	1,181
Adoption of new accounting principles		10			10		10
Share-based compensation expense	43				43		43
Common stock dividends declared		(326)			(326)		(326)
Preferred dividends of subsidiaries		(10)			(10)		(10)
Quasi-reorganization adjustment	(2)				(2)		(2)
Issuance of common stock	62				62		62
Tax benefit related to share-based compensation	26				26		26
Repurchases of common stock	(185)				(185)		(185)
Common stock released from ESOP	9		3		12		12
Equity contributed by noncontrolling interests						2	2
Initial consolidation of Otay Mesa VIE						152	152
Balance at December 31, 2007	3,198	5,464	(22)	(301)	8,339	248	8,587
Net income (loss)		1,123			1,123	(55)	1,068
Comprehensive income adjustments:							
Foreign currency translation adjustments				(140)	(140)		(140)
Available-for-sale securities				(26)	(26)		(26)
Pension and other postretirement benefits				(30)	(30)		(30)
Financial instruments				(16)	(16)	(14)	(30)
Comprehensive income (loss)				(212)	911	(69)	842
Share-based compensation expense	49				49		49
Common stock dividends declared		(342)			(342)		(342)
Preferred dividends of subsidiaries		(10)			(10)		(10)
Issuance of common stock	18				18		18
Tax benefit related to share-based compensation	6				6		6
Repurchases of common stock	(1,018)				(1,018)		(1,018)
Common stock released from ESOP	12		4		16		16
Equity contributed by noncontrolling interests						75	75
EnergySouth acquisition						86	86
Balance at December 31, 2008	\$ 2,265	\$ 6,235	\$ (18)	\$ (513)	\$ 7,969	\$ 340	\$ 8,309

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CHANGES IN EQUITY (CONTINUED)
(Dollars in millions)

	Years ended December 31, 2009, 2008* and 2007*						
	Common Stock	Retained Earnings	Deferred Compen- sation Relating to ESOP	Accumulated Other Compre- hensive Income (Loss)	Sempra Energy Shareholders' Equity	Non- controlling Interests	Total Equity
Balance at December 31, 2008	\$ 2,265	\$ 6,235	\$ (18)	\$ (513)	\$ 7,969	\$ 340	\$ 8,309
Net income (loss)		1,129			1,129	(7)	1,122
Comprehensive income adjustments:							
Foreign currency translation adjustments				102	102		102
Available-for-sale securities				7	7		7
Pension and other postretirement benefits				(3)	(3)		(3)
Financial instruments				38	38	(3)	35
Comprehensive income (loss)				144	1,273	(10)	1,263
Share-based compensation expense	38				38		38
Common stock dividends declared		(383)			(383)		(383)
Preferred dividends of subsidiaries		(10)			(10)		(10)
Issuance of common stock	114				114		114
Tax benefit related to share-based compensation	23				23		23
Repurchases of common stock	(22)				(22)		(22)
Common stock released from ESOP	10		5		15		15
Equity contributed by noncontrolling interests						7	7
Distributions to noncontrolling interests						(9)	(9)
Purchase of noncontrolling interest in subsidiary	(10)				(10)	(84)	(94)
Balance at December 31, 2009	\$ 2,418	\$ 6,971	\$ (13)	\$ (369)	\$ 9,007	\$ 244	\$ 9,251

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Years ended December 31,		
	2009	2008*	2007*
Operating revenues			
Electric	\$ 2,426	\$ 2,562	\$ 2,194
Natural gas	490	689	658
Total operating revenues	<u>2,916</u>	<u>3,251</u>	<u>2,852</u>
Operating expenses			
Cost of electric fuel and purchased power	672	900	699
Cost of natural gas	206	415	392
Operation and maintenance	961	913	807
Depreciation and amortization	329	298	301
Franchise fees and other taxes	160	158	155
Gains on sale of assets	(1)	(3)	(2)
Total operating expenses	<u>2,327</u>	<u>2,681</u>	<u>2,352</u>
Operating income	589	570	500
Other income (expense), net	64	(29)	(6)
Interest income	1	6	8
Interest expense	(104)	(96)	(96)
Income before income taxes	550	451	406
Income tax expense	(177)	(161)	(135)
Net income	373	290	271
(Earnings) losses attributable to noncontrolling interests	(24)	54	17
Earnings	349	344	288
Preferred dividend requirements	(5)	(5)	(5)
Earnings attributable to common shares	<u>\$ 344</u>	<u>\$ 339</u>	<u>\$ 283</u>

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13	\$ 19
Short-term investments	-	24
Restricted cash	8	-
Accounts receivable - trade	229	225
Accounts receivable - other	85	30
Due from unconsolidated affiliates	8	29
Income taxes receivable	59	22
Deferred income taxes	41	17
Inventories	61	62
Regulatory assets arising from fixed-price contracts and other derivatives	30	94
Other regulatory assets	4	8
Fixed-price contracts and other derivatives	40	39
Insurance receivable related to wildfire litigation (Note 17)	273	-
Other	35	15
Total current assets	<u>886</u>	<u>584</u>
Other assets:		
Due from unconsolidated affiliate	2	4
Deferred taxes recoverable in rates	415	369
Regulatory assets arising from fixed-price contracts and other derivatives	241	264
Regulatory assets arising from pension and other postretirement benefit obligations	342	393
Other regulatory assets	53	59
Nuclear decommissioning trusts	678	577
Sundry	43	154
Total other assets	<u>1,774</u>	<u>1,820</u>
Property, plant and equipment:		
Property, plant and equipment	10,156	9,095
Less accumulated depreciation and amortization	<u>(2,587)</u>	<u>(2,420)</u>
Property, plant and equipment, net	<u>7,569</u>	<u>6,675</u>
Total assets	<u>\$ 10,229</u>	<u>\$ 9,079</u>

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2009	December 31, 2008*
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 33	\$ -
Accounts payable	249	261
Due to unconsolidated affiliates	-	1
Regulatory balancing accounts, net	159	114
Customer deposits	56	53
Fixed-price contracts and other derivatives	51	77
Accrued compensation and benefits	104	105
Current portion of long-term debt	45	2
Reserve for wildfire litigation (Note 17)	270	-
Other	157	163
Total current liabilities	<u>1,124</u>	<u>776</u>
Long-term debt	<u>2,623</u>	<u>2,142</u>
Deferred credits and other liabilities:		
Customer advances for construction	23	26
Pension and other postretirement benefit obligations, net of plan assets	370	419
Deferred income taxes	774	628
Deferred investment tax credits	26	26
Regulatory liabilities arising from removal obligations	1,330	1,212
Asset retirement obligations	585	550
Fixed-price contracts and other derivatives	265	347
Deferred credits and other	145	204
Total deferred credits and other liabilities	<u>3,518</u>	<u>3,412</u>
Contingently redeemable preferred stock	<u>79</u>	<u>79</u>
Commitments and contingencies (Note 17)		
Equity:		
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)	1,138	1,138
Retained earnings	1,611	1,417
Accumulated other comprehensive income (loss)	(10)	(13)
Total SDG&E shareholders' equity	<u>2,739</u>	<u>2,542</u>
Noncontrolling interests	146	128
Total equity	<u>2,885</u>	<u>2,670</u>
Total liabilities and equity	<u>\$ 10,229</u>	<u>\$ 9,079</u>

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

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

	Years ended December 31,		
	2009	2008*	2007*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 373	\$ 290	\$ 271
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	329	298	301
Deferred income taxes and investment tax credits	73	113	(40)
Noncash rate-reduction bond expense	-	-	55
Fixed-price contracts and other derivatives	(41)	55	3
Gains on sale of assets	(1)	(3)	(2)
Other	(20)	(1)	28
Changes in other assets	23	19	5
Changes in other liabilities	(53)	(23)	(5)
Changes in working capital components:			
Accounts receivable	(53)	1	(43)
Interest receivable	-	1	(1)
Due to/from affiliates, net	-	18	7
Inventories	1	51	(16)
Other current assets	660	(49)	6
Income taxes	(44)	44	(31)
Accounts payable	1	(70)	10
Regulatory balancing accounts	32	(184)	133
Other current liabilities	(639)	59	(21)
Net cash provided by operating activities	<u>641</u>	<u>619</u>	<u>660</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(955)	(884)	(714)
Expenditures for short-term investments	(152)	(488)	-
Proceeds from sale of short-term investments	176	464	-
Purchases of nuclear decommissioning trust assets	(237)	(468)	(587)
Proceeds from sales by nuclear decommissioning trusts	230	468	592
Decrease (increase) in loans to affiliates, net	20	(33)	-
Proceeds from sale of assets	1	1	2
Net increase in restricted cash	(8)	-	-
Net cash used in investing activities	<u>(925)</u>	<u>(940)</u>	<u>(707)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(150)	-	-
Preferred dividends paid	(5)	(5)	(5)
Redemptions of preferred stock	-	(14)	(3)
Issuances of long-term debt	439	193	313
Payments on long-term debt	(2)	-	(66)
Increase (decrease) in short-term debt, net	4	-	(72)
Capital contribution received by Otay Mesa VIE	4	9	-
Capital distribution made by Otay Mesa VIE	(9)	-	-
Other	(3)	(1)	-
Net cash provided by financing activities	<u>278</u>	<u>182</u>	<u>167</u>
Increase (decrease) in cash and cash equivalents	(6)	(139)	120
Cash and cash equivalents, January 1	19	158	9
Cash assumed in connection with initial consolidation of variable interest entity	-	-	29
Cash and cash equivalents, December 31	<u>\$ 13</u>	<u>\$ 19</u>	<u>\$ 158</u>

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
STATEMENTS OF CONSOLIDATED CASH FLOWS (CONTINUED)

(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 99	\$ 92	\$ 85
Income tax payments, net of refunds	148	3	206
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Increase in capital lease obligations for investments in property, plant and equipment	\$ 21	\$ -	\$ -
Dividends declared but not paid	1	1	1

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CHANGES IN EQUITY

(Dollars in millions)

Years ended December 2009, 2008* and 2007*

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	SDG&E Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2006	\$ 1,138	\$ 796	\$ (19)	\$ 1,915	\$ -	\$ 1,915
Net income (loss)		288		288	(17)	271
Comprehensive income adjustments:						
Pension and other postretirement benefits			4	4		4
Financial instruments			(1)	(1)		(1)
Comprehensive income (loss)			3	291	(17)	274
Adoption of new accounting principle		(1)		(1)		(1)
Preferred stock dividends declared		(5)		(5)		(5)
Initial consolidation of Otay Mesa VIE					152	152
Balance at December 31, 2007	1,138	1,078	(16)	2,200	135	2,335
Net income (loss)		344		344	(54)	290
Comprehensive income adjustments:						
Pension and other postretirement benefits			3	3		3
Financial instruments					(14)	(14)
Comprehensive income (loss)			3	347	(68)	279
Preferred stock dividends declared		(5)		(5)		(5)
Equity contributed by noncontrolling interests					61	61
Balance at December 31, 2008	1,138	1,417	(13)	2,542	128	2,670
Net income		349		349	24	373
Comprehensive income adjustments:						
Pension and other postretirement benefits			2	2		2
Financial instruments			1	1	(3)	(2)
Comprehensive income			3	352	21	373
Preferred stock dividends declared		(5)		(5)		(5)
Common stock dividends declared		(150)		(150)		(150)
Distributions to noncontrolling interests					(9)	(9)
Equity contributed by noncontrolling interests					6	6
Balance at December 31, 2009	\$ 1,138	\$ 1,611	\$ (10)	\$ 2,739	\$ 146	\$ 2,885

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Years ended December 31,		
	2009	2008*	2007*
Operating revenues	\$ 3,355	\$ 4,768	\$ 4,282
Operating expenses			
Cost of natural gas	1,343	2,841	2,420
Operation and maintenance	1,138	1,077	1,022
Depreciation	293	280	281
Franchise fees and other taxes	105	135	125
Gains on sale of assets	-	-	(2)
Total operating expenses	2,879	4,333	3,846
Operating income	476	435	436
Other income (expense), net	4	2	(3)
Interest income	4	22	51
Interest expense	(69)	(65)	(76)
Income before income taxes	415	394	408
Income tax expense	(145)	(141)	(165)
Net income	270	253	243
Preferred dividends of subsidiary	(1)	(1)	(1)
Earnings	269	252	242
Preferred dividend requirements	(4)	(4)	(4)
Earnings attributable to common shares	\$ 265	\$ 248	\$ 238

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS***(Dollars in millions)*

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49	\$ 206
Accounts receivable - trade	567	572
Accounts receivable - other	44	20
Due from unconsolidated affiliates	12	5
Income taxes receivable	36	108
Inventories	93	167
Other regulatory assets	9	18
Other	39	37
Total current assets	<u>849</u>	<u>1,133</u>
Other assets:		
Due from unconsolidated affiliate	513	457
Regulatory assets arising from pension and other postretirement benefit obligations	617	795
Other regulatory assets	131	105
Sundry	40	49
Total other assets	<u>1,301</u>	<u>1,406</u>
Property, plant and equipment:		
Property, plant and equipment	9,299	8,816
Less accumulated depreciation and amortization	<u>(3,615)</u>	<u>(3,448)</u>
Property, plant and equipment, net	<u>5,684</u>	<u>5,368</u>
Total assets	<u>\$ 7,834</u>	<u>\$ 7,907</u>

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2009	December 31, 2008*
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable - trade	\$ 207	\$ 257
Accounts payable - other	120	163
Due to unconsolidated affiliates	87	106
Deferred income taxes	5	6
Regulatory balancing accounts, net	223	221
Customer deposits	87	114
Accrued compensation and benefits	86	92
Current portion of long-term debt	11	100
Other	162	213
Total current liabilities	<u>988</u>	<u>1,272</u>
Long-term debt	<u>1,283</u>	<u>1,270</u>
Deferred credits and other liabilities:		
Customer advances for construction	123	131
Pension and other postretirement benefit obligations, net of plan assets	644	823
Deferred income taxes	273	157
Deferred investment tax credits	28	30
Regulatory liabilities arising from removal obligations	1,227	1,218
Asset retirement obligations	662	581
Deferred taxes refundable in rates	175	214
Deferred credits and other	203	251
Total deferred credits and other liabilities	<u>3,335</u>	<u>3,405</u>
Commitments and contingencies (Note 17)		
Equity:		
Preferred stock	80	80
Common stock (600 million shares authorized; 84 million shares outstanding; no par value)	1,462	1,462
Retained earnings	691	426
Accumulated other comprehensive income (loss)	(25)	(28)
Total Pacific Enterprises shareholders' equity	<u>2,208</u>	<u>1,940</u>
Preferred stock of subsidiary	20	20
Total equity	<u>2,228</u>	<u>1,960</u>
Total liabilities and equity	<u>\$ 7,834</u>	<u>\$ 7,907</u>

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Years ended December 31,		
	2009	2008*	2007*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 270	\$ 253	\$ 243
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	293	280	281
Deferred income taxes and investment tax credits	72	92	10
Gains on sale of assets	-	-	(2)
Other	4	(2)	2
Changes in other assets	11	(30)	4
Changes in other liabilities	(76)	(56)	29
Changes in working capital components:			
Accounts receivable	(30)	102	(31)
Interest receivable	-	-	10
Inventories	74	(69)	8
Other current assets	10	(23)	(2)
Accounts payable	(99)	7	(79)
Income taxes	65	(71)	42
Due to/from affiliates, net	(77)	(4)	4
Regulatory balancing accounts	10	46	(13)
Customer deposits	(28)	24	3
Other current liabilities	(66)	24	(17)
Net cash provided by operating activities	<u>433</u>	<u>573</u>	<u>492</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(480)	(454)	(457)
Decrease (increase) in loans to affiliates, net	(4)	136	(34)
Proceeds from sale of assets	-	-	2
Other	(1)	(1)	-
Net cash used in investing activities	<u>(485)</u>	<u>(319)</u>	<u>(489)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	-	(350)	(150)
Preferred dividends paid	(4)	(4)	(4)
Preferred dividends paid by subsidiary	(1)	(1)	(1)
Issuance of long-term debt	-	250	-
Payment of long-term debt	(100)	-	-
Other	-	(2)	-
Net cash used in financing activities	<u>(105)</u>	<u>(107)</u>	<u>(155)</u>
Increase (decrease) in cash and cash equivalents	(157)	147	(152)
Cash and cash equivalents, January 1	206	59	211
Cash and cash equivalents, December 31	<u>\$ 49</u>	<u>\$ 206</u>	<u>\$ 59</u>

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS (CONTINUED)

(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 60	\$ 61	72
Income tax payments, net of refunds	76	120	114
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Increase in capital lease obligations for investments in property, plant, and equipment	\$ 29	\$ -	-
Dividends declared but not paid	1	1	151

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CHANGES IN EQUITY
(Dollars in millions)

Years ended December 31, 2009, 2008* and 2007*

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	PE Shareholders' Equity	Non- Controlling Interests	Total Equity
Balance at December 31, 2006	\$ 80	\$ 1,464	\$ 391	\$ (5)	\$ 1,930	\$ 20	\$ 1,950
Net income			243		243		243
Comprehensive income adjustment:							
Financial instruments				1	1		1
Comprehensive income				1	244		244
Adoption of new accounting principle			(1)		(1)		(1)
Quasi-reorganization adjustment		(2)			(2)		(2)
Preferred stock dividends declared			(4)		(4)		(4)
Common stock dividends declared			(250)		(250)		(250)
Preferred dividends of subsidiary			(1)		(1)		(1)
Balance at December 31, 2007	80	1,462	378	(4)	1,916	20	1,936
Net income			253		253		253
Comprehensive income adjustments:							
Financial instruments				(25)	(25)		(25)
Pension and other postretirement benefits				1	1		1
Comprehensive income (loss)				(24)	229		229
Preferred stock dividends declared			(4)		(4)		(4)
Common stock dividends declared			(200)		(200)		(200)
Preferred dividends of subsidiary			(1)		(1)		(1)
Balance at December 31, 2008	80	1,462	426	(28)	1,940	20	1,960
Net income			270		270		270
Comprehensive income adjustments:							
Financial instruments				3	3		3
Comprehensive income				3	273		273
Preferred stock dividends declared			(4)		(4)		(4)
Preferred dividends of subsidiary			(1)		(1)		(1)
Balance at December 31, 2009	\$ 80	\$ 1,462	\$ 691	\$ (25)	\$ 2,208	\$ 20	\$ 2,228

* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Consolidated Financial Statements.

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

	Years ended December 31,		
	2009	2008	2007
Operating revenues	\$ 3,355	\$ 4,768	\$ 4,282
Operating expenses			
Cost of natural gas	1,343	2,841	2,420
Operation and maintenance	1,138	1,078	1,021
Depreciation	293	280	281
Franchise fees and other taxes	105	135	125
Gains on sale of assets	-	-	(2)
Total operating expenses	2,879	4,334	3,845
Operating income	476	434	437
Other income (expense), net	7	2	(3)
Interest income	3	11	27
Interest expense	(68)	(62)	(70)
Income before income taxes	418	385	391
Income tax expense	(144)	(140)	(160)
Net income	274	245	231
Preferred dividend requirements	(1)	(1)	(1)
Earnings attributable to common shares	\$ 273	\$ 244	\$ 230

See Notes to Consolidated Financial Statements.

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

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49	\$ 206
Accounts receivable - trade	567	572
Accounts receivable - other	44	20
Due from unconsolidated affiliates	6	-
Income taxes receivable	35	41
Inventories	93	167
Other regulatory assets	9	18
Other	40	37
Total current assets	<u>843</u>	<u>1,061</u>
Other assets:		
Regulatory assets arising from pension and other postretirement benefit obligations	617	795
Other regulatory assets	131	105
Sundry	14	24
Total other assets	<u>762</u>	<u>924</u>
Property, plant and equipment:		
Property, plant and equipment	9,297	8,814
Less accumulated depreciation and amortization	<u>(3,615)</u>	<u>(3,448)</u>
Property, plant and equipment, net	5,682	5,366
Total assets	<u>\$ 7,287</u>	<u>\$ 7,351</u>

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2009	December 31, 2008
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	\$ 207	\$ 257
Accounts payable - other	120	163
Due to unconsolidated affiliates	3	23
Deferred income taxes	6	6
Regulatory balancing accounts, net	223	221
Customer deposits	87	114
Accrued compensation and benefits	86	92
Current portion of long-term debt	11	100
Other	158	211
Total current liabilities	<u>901</u>	<u>1,187</u>
Long-term debt	<u>1,283</u>	<u>1,270</u>
Deferred credits and other liabilities:		
Customer advances for construction	123	131
Pension and other postretirement benefit obligations, net of plan assets	644	823
Deferred income taxes	280	167
Deferred investment tax credits	28	30
Regulatory liabilities arising from removal obligations	1,227	1,218
Asset retirement obligations	662	581
Deferred taxes refundable in rates	175	214
Deferred credits and other	198	240
Total deferred credits and other liabilities	<u>3,337</u>	<u>3,404</u>
Commitments and contingencies (Note 17)		
Shareholders' equity:		
Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	903	630
Accumulated other comprehensive income (loss)	(25)	(28)
Total shareholders' equity	<u>1,766</u>	<u>1,490</u>
Total liabilities and shareholders' equity	\$ 7,287	\$ 7,351

See Notes to Consolidated Financial Statements.

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

	Years ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 274	\$ 245	\$ 231
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	293	280	281
Deferred income taxes and investment tax credits	70	87	8
Gains on sale of assets	-	-	(2)
Other	8	2	5
Changes in other assets	7	(33)	-
Changes in other liabilities	(68)	(51)	37
Changes in working capital components:			
Accounts receivable	(30)	102	(31)
Interest receivable	-	-	10
Inventories	74	(69)	8
Other current assets	10	(23)	(2)
Accounts payable	(99)	7	(79)
Income taxes	(2)	(67)	38
Due to/from affiliates, net	(10)	(6)	1
Regulatory balancing accounts	10	46	(13)
Customer deposits	(28)	24	3
Other current liabilities	(69)	24	(17)
Net cash provided by operating activities	<u>440</u>	<u>568</u>	<u>478</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(480)	(454)	(457)
Decrease (increase) in loans to affiliates, net	(16)	136	(24)
Proceeds from sale of assets	-	-	2
Net cash used in investing activities	<u>(496)</u>	<u>(318)</u>	<u>(479)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	-	(350)	(150)
Preferred dividends paid	(1)	(1)	(1)
Issuance of long-term debt	-	250	-
Payment of long-term debt	(100)	-	-
Other	-	(2)	-
Net cash used in financing activities	<u>(101)</u>	<u>(103)</u>	<u>(151)</u>
Increase (decrease) in cash and cash equivalents	(157)	147	(152)
Cash and cash equivalents, January 1	206	59	211
Cash and cash equivalents, December 31	<u>\$ 49</u>	<u>\$ 206</u>	<u>\$ 59</u>

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS (CONTINUED)

(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 59	\$ 58	66
Income tax payments, net of refunds	76	120	114
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Increase in capital lease obligations for investments in property, plant and equipment	\$ 29	- \$	-
Dividends declared but not paid	-	-	150

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in millions)

Years ended December 31, 2009, 2008 and 2007

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2006	\$ 22	\$ 866	\$ 607	\$ (5)	\$ 1,490
Net income			231		231
Comprehensive income adjustment:					
Financial instruments				1	1
Comprehensive income				1	232
Adoption of new accounting principle			(1)		(1)
Preferred stock dividends declared			(1)		(1)
Common stock dividends declared			(250)		(250)
Balance at December 31, 2007	22	866	586	(4)	1,470
Net income			245		245
Comprehensive income adjustments:					
Financial instruments				(25)	(25)
Pension and other postretirement benefits				1	1
Comprehensive income (loss)				(24)	221
Preferred stock dividends declared			(1)		(1)
Common stock dividends declared			(200)		(200)
Balance at December 31, 2008	22	866	630	(28)	1,490
Net income			274		274
Comprehensive income adjustments:					
Financial instruments				3	3
Comprehensive income				3	277
Preferred stock dividends declared			(1)		(1)
Balance at December 31, 2009	\$ 22	\$ 866	\$ 903	\$ (25)	\$ 1,766

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 holding company, its consolidated subsidiaries, and variable interest entities. Sempra Energy's principal subsidiaries are

- § San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), which we collectively refer to as the Sempra Utilities; and
- § Sempra Global, which is the holding company for Sempra Commodities, Sempra Generation, Sempra Pipelines & Storage, Sempra LNG and other, smaller businesses.

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated subsidiaries in Notes 3 and 4.

SDG&E

SDG&E's Consolidated Financial Statements include its accounts, the accounts of its sole subsidiary, SDG&E Funding LLC, and the accounts of Otay Mesa Energy Center LLC (Otay Mesa VIE) and Orange Grove Energy L.P. (Orange Grove VIE), which are variable interest entities of which SDG&E is the primary beneficiary, as discussed 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. The activities of SDG&E Funding LLC were substantially complete in 2007, and the entity was dissolved in 2008.

Pacific Enterprises and SoCalGas

The Consolidated Financial Statements of Pacific Enterprises include the accounts of Pacific Enterprises (PE) and its subsidiary, SoCalGas. Sempra Energy owns all of PE's common stock and PE owns all of SoCalGas' common stock. SoCalGas' Consolidated Financial Statements include its subsidiaries, which comprise less than one percent of its consolidated financial position and results of operations.

PE's operations consist solely of those of SoCalGas and additional items (e.g., cash, intercompany accounts and equity) attributable to serving as a holding company for SoCalGas.

BASIS OF PRESENTATION

This is a combined report of Sempra Energy, SDG&E, PE and SoCalGas. We provide separate information for SDG&E, PE and SoCalGas as required. When only information for SoCalGas is provided, it is the same for PE. 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 each set of consolidated financial statements.

We evaluated events and transactions that occurred after December 31, 2009 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.

QUASI-REORGANIZATION

In 1993, PE effected a quasi-reorganization for financial reporting purposes as of December 31, 1992. A quasi-reorganization permits a company, for accounting purposes, to adjust its financial statements and proceed on much the same basis as if it had been legally reorganized. In 2007, an adjustment to liabilities related to the quasi-reorganization resulted in a decrease to equity. We expect to resolve the remaining liabilities of \$4 million in 2010. We believe the provisions established for these matters are adequate.

USE OF ESTIMATES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (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.

REGULATORY MATTERS

Effects of Regulation

The accounting policies of our principal regulated utility subsidiaries, SDG&E and SoCalGas, conform with GAAP for regulated enterprises and reflect the policies of the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC).

The Sempra Utilities prepare their financial statements in accordance with GAAP provisions governing regulated operations. Under these provisions, a regulated utility records a regulatory asset 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 as a result of changes in regulation or the utility's competitive position, the related regulatory assets are written off. Regulatory liabilities 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.

The following subsidiaries of Sempra Pipelines & Storage also apply GAAP for regulated utilities to their operations:

- § Mobile Gas Service Corporation (Mobile Gas), a small regulated natural gas distribution utility in Southwest Alabama acquired in October 2008
- § Ecogas Mexico, S de RL de CV (Ecogas), a small regulated natural gas distribution utility in Northern Mexico

We provide information concerning regulatory assets and liabilities below in "Regulatory Balancing Accounts" and "Regulatory Assets and Liabilities."

Regulatory Balancing Accounts

The following table summarizes our regulatory balancing accounts at December 31. The net payables (payables net of receivables) will be returned to customers by reducing future rates.

SUMMARY OF REGULATORY BALANCING ACCOUNTS AT DECEMBER 31						
<i>(Dollars in millions)</i>						
	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2009	2008	2009	2008	2009	2008
Overcollected	\$ 699	\$ 728	\$ 383	\$ 364	\$ 316	\$ 364
Undercollected	(317)	(393)	(224)	(250)	(93)	(143)
Net payable	\$ 382	\$ 335	\$ 159	\$ 114	\$ 223	\$ 221

Over- and undercollected 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 or refundable 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 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 15 and 16.

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		
<i>(Dollars in millions)</i>		
	2009	2008
SDG&E		
Fixed-price contracts and other derivatives	\$ 271	\$ 358
Deferred taxes recoverable in rates	415	369
Pension and other postretirement benefit obligations	342	393
Removal obligations(1)	(1,330)	(1,212)
Unamortized loss on reacquired debt, net	27	30
Environmental costs	15	21
Other	15	16
Total SDG&E	(245)	(25)
SoCalGas		
Pension and other postretirement benefit obligations	617	795
Employee benefit costs	52	46
Removal obligations(1)	(1,227)	(1,218)
Deferred taxes refundable in rates	(175)	(214)
Unamortized loss on reacquired debt, net	26	30
Environmental costs	25	36
Workers' compensation	47	26
Other	(11)	(18)
Total SoCalGas	(646)	(517)
Other		
Mobile Gas	(8)	(3)
Ecogas	14	-
Total Other	6	(3)
Total Sempra Energy Consolidated	\$ (885)	\$ (545)

(1) This is related to obligations that we discuss below in "Asset Retirement Obligations."

NET REGULATORY ASSETS (LIABILITIES) AS PRESENTED ON THE CONSOLIDATED BALANCE SHEETS AT DECEMBER 31						
<i>(Dollars in millions)</i>						
	2009			2008		
	Sempra Energy Consolidated	SDG&E	SoCalGas	Sempra Energy Consolidated	SDG&E	SoCalGas
Current regulatory assets	\$ 54	\$ 34	\$ 9	\$ 121	\$ 102	\$ 18
Noncurrent regulatory assets	1,803	1,051	748	1,986	1,085	900
Current regulatory liabilities(1)	(4)	-	(1)	(3)	-	(3)
Noncurrent regulatory liabilities	(2,738)	(1,330)	(1,402)	(2,649)	(1,212)	(1,432)
Total	\$ (885)	\$ (245)	\$ (646)	\$ (545)	\$ (25)	\$ (517)

(1) Included in Other Current Liabilities.

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 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.
- § Deferred taxes recoverable/refundable in rates are based on current regulatory ratemaking and income tax laws. SDG&E and SoCalGas expect to recover/refund net regulatory assets/liabilities related to deferred income taxes over the lives of the assets that give rise to the accumulated deferred income tax liabilities/assets.
- § 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 3 months to 18 years for SDG&E and from 3 to 16 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.
- § Regulatory assets related to pension and other postretirement benefit obligations are offset by corresponding liabilities and are being recovered in rates as the plans are funded.

For substantially all of these assets, the cash has not yet been expended and the assets are offset by liabilities that do not incur a carrying cost.

FAIR VALUE MEASUREMENTS

We apply recurring fair value measurements to certain assets and liabilities, primarily nuclear decommissioning trusts, marketable securities and other miscellaneous derivatives. Prior to the formation of RBS Sempra Commodities LLP (RBS Sempra Commodities) on April 1, 2008, as we discuss in Notes 3 and 4, we also applied fair value measurements to trading derivatives and certain trading inventories.

"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 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 exchange-traded derivatives, listed equities and U.S. government treasury securities.

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 non-exchange-traded derivatives such as 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.

As a result of implementing new accounting standards in 2007 related to fair value measurement, we recorded a transition adjustment gain of \$12 million to Sempra Energy's beginning retained earnings in 2007, net of tax. There was no transition adjustment at SDG&E or SoCalGas.

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 was \$35 million in 2009 and \$27 million in 2008 at December 31. In 2009 and 2008, \$27 million of restricted cash represents funds held in trust for construction financing of certain natural gas storage facilities of Sempra Pipelines & Storage. SDG&E had \$8 million of restricted cash at December 31, 2009, which represents funds held by a trustee for Otay Mesa VIE to pay certain operating costs.

COLLECTION ALLOWANCES

We record allowances for the collection of receivables and, prior to the sale of our commodities-marketing businesses, realization of trading assets (discussed below under "Trading Instruments"). The allowances for collection of receivables include allowances for doubtful customer accounts and for other receivables. The changes in allowances for collection of receivables and realization of trading assets are shown in the table below:

COLLECTION ALLOWANCES

(Dollars in millions)

Years ended December 31,

	2009	2008	2007
Sempra Energy Consolidated			
Allowances for collection of receivables at January 1	\$ 29	\$ 16	\$ 15
Provisions for uncollectible accounts	25	36	20
Write-offs of uncollectible accounts	(27)	(25)	(19)
Acquisition of EnergySouth (see Note 3)	-	2	-
Allowances for collection of receivables at December 31	\$ 27	\$ 29	\$ 16
SDG&E			
Allowance for realization of trading assets at January 1	\$ -	\$ 48	\$ 53
Provisions for (recovery of) uncollectible accounts	-	42	(2)
Write-offs of uncollectible accounts	-	-	(3)
Sale of commodities-marketing businesses (see Note 3)	-	(90)	-
Allowance for realization of trading assets at December 31	\$ -	\$ -	\$ 48
SoCalGas			
Allowances for collection of receivables at January 1	\$ 6	\$ 5	\$ 5
Provisions for uncollectible accounts	8	12	8
Write-offs of uncollectible accounts	(10)	(11)	(8)
Allowances for collection of receivables at December 31	\$ 4	\$ 6	\$ 5

TRADING INSTRUMENTS

Trading Securities

In the first quarter of 2008, Sempra Commodities recorded \$2 million of pretax losses related to trading securities, including a pretax gain of \$3 million resulting from sales and an unrealized pretax loss of \$5 million related to securities held at March 31, 2008.

In 2007, Sempra Commodities recorded \$14 million of pretax gains related to trading securities, including a pretax gain of \$6 million resulting from sales, an unrealized pretax gain of \$8 million from transfers to trading securities from available-for-sale securities due to changes in their status, and unrealized pretax loss of a negligible amount related to securities held at December 31, 2007.

INVENTORIES

The Sempra 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 Sempra Utilities are generally valued at the lower of average cost or market.

At December 31, 2009 and 2008, Sempra Pipelines & Storage had \$5 million and \$39 million, respectively, of natural gas inventory recorded at lower of average cost or market, and Sempra LNG had \$19 million and \$17 million, respectively, of LNG inventory (categorized as natural gas below) valued by the first-in first-out method.

INVENTORY BALANCES AT DECEMBER 31

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2009	2008	2009	2008	2009	2008
Natural gas	\$ 93	\$ 201	\$ -	\$ -	\$ 69	\$ 143
Materials and supplies	104	119	61	62	24	24
Total	\$ 197	\$ 320	\$ 61	\$ 62	\$ 93	\$ 167

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 Sempra Utilities over the estimated service lives of the properties as required by the CPUC, and represent regulatory liabilities. At Sempra Global and Parent, investment tax credits and other credits, mainly low-income housing and synthetic fuels tax credits in 2007, are recognized in income as earned.

The Sempra Utilities and Mobile 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.

We currently do not record deferred income taxes for undistributed earnings of our non-U.S. subsidiaries.

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 8.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment primarily represents the buildings, equipment and other facilities used by the Sempra Utilities to provide natural gas and electric utility services, and by Sempra Generation, Sempra LNG and Sempra Pipelines & Storage. It also reflects projects included in construction work in progress at these business units.

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 includes 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.

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,		
	2009	2008	2009	2008	2007
SDG&E:					
Natural gas operations	\$ 1,204	\$ 1,150	2.84 %	2.80 %	3.43 %
Electric distribution	4,425	4,183	3.97	3.95	4.15
Electric transmission	1,662	1,533	2.67	2.67	2.84
Electric generation	1,503	863	3.84	3.77	3.67
Other electric(1)	613	483	8.50	8.13	8.50
Construction work in progress	749	883	NA	NA	NA
Total SDG&E	10,156	9,095			
SoCalGas:					
Natural gas operations(2)	8,911	8,500	3.50	3.49	3.63
Other non-utility	114	110	1.41	1.55	4.28
Construction work in progress	272	204	NA	NA	NA
Total SoCalGas	9,297	8,814			
Sempra Global and parent(3):					
Land and land rights	189	157	Estimated Useful Lives 25 to 50 years(4)		
Machinery and equipment:					
Generating plants	1,457	1,399	4 to 35 years		
LNG(5) receipt terminals	2,033	958	5 to 50 years		
Pipelines and storage	942	775	10 to 50 years		
Other	136	79	2 to 50 years		
Construction work in progress:					
LNG facilities	27	915	NA		
Other	534	737	NA		
Other(6)	263	224	3 to 50 years		
Total Sempra Energy Consolidated	\$ 25,034	\$ 23,153			

(1) Includes capital lease assets of \$21 million at December 31, 2009.

(2) Includes capital lease assets of \$29 million at December 31, 2009.

(3) December 31, 2009 balances include \$150 million and \$125 million of utility plant, primarily pipelines and storage, at Mobile Gas and Ecogas, respectively. December 31, 2008 balances include \$142 million and \$116 million of utility plant, primarily pipelines and storage, at Mobile Gas and Ecogas, respectively.

(4) Estimated useful lives are for land rights.

(5) Liquefied natural gas.

(6) Includes \$2 million at both December 31, 2009 and 2008 for PE.

Depreciation expense is based on the straight-line method over the useful lives of the assets or, for the Sempra 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 or the remaining term of the site leases, whichever is shorter.

The accumulated depreciation and decommissioning amounts on our Consolidated Balance Sheets are as follows:

ACCUMULATED DEPRECIATION AND DECOMMISSIONING AMOUNTS			
<i>(Dollars in millions)</i>			
	December 31,		
	2009	2008	
SDG&E:			
Accumulated depreciation and decommissioning of utility plant in service:			
Electric	\$ 2,069	\$ 1,921	
Natural gas	518	499	
Total SDG&E	<u>2,587</u>	<u>2,420</u>	
SoCalGas:			
Accumulated depreciation of natural gas utility plant in service	3,529	3,364	
Accumulated depreciation – other non-utility	86	84	
Total SoCalGas	<u>3,615</u>	<u>3,448</u>	
Sempra Global and parent(1):			
Accumulated depreciation	551	420	
Total Sempra Energy Consolidated	\$ 6,753	\$ 6,288	

(1) December 31, 2009 balances include \$8 million and \$24 million of accumulated depreciation for utility plant, primarily pipelines and storage, at Mobile Gas and Ecogas, respectively. December 31, 2008 balances include \$2 million and \$21 million of accumulated depreciation for utility plant, primarily pipelines and storage, at Mobile Gas and Ecogas, respectively.

The Sempra Utilities finance their construction projects with borrowed funds and equity funds. The CPUC allows the recovery of the cost of these funds as part of the cost of construction projects by recording AFUDC, which is calculated using rates authorized by the CPUC. The Sempra Utilities recover the AFUDC from their customers, plus earn a return on the allowance after the utility property is placed in service.

Sempra Global businesses capitalize interest costs incurred to finance capital projects. The Sempra Utilities also capitalize certain interest costs.

CAPITALIZED FINANCING COSTS				
<i>(Dollars in millions)</i>				
	Years ended December 31,			
	2009	2008	2007	
SDG&E:				
AFUDC related to debt	\$ 10	\$ 10	\$ 7	
AFUDC related to equity	29	27	17	
Other capitalized financing costs	4	13	3	
Total SDG&E	<u>43</u>	<u>50</u>	<u>27</u>	
SoCalGas:				
AFUDC related to debt	5	3	2	
AFUDC related to equity	10	8	5	
Other capitalized financing costs	1	-	1	
Total SoCalGas	<u>16</u>	<u>11</u>	<u>8</u>	
Sempra Global:				
Capitalized financing costs	68	87	96	
Total Sempra Energy Consolidated	\$ 127	\$ 148	\$ 131	

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. We cease to record depreciation expense on an asset when it is classified as held for sale.

During 2008, management approved and committed to a formal plan to dispose of certain Sempra Generation assets, recorded at December 31, 2009 and 2008 as follows:

(Dollars in millions)

Gas turbine	\$	34
Steam turbine		6
Emission reduction credits		1
	\$	41

We classified these assets as held for sale as of December 31, 2009 and 2008. They are included in Other Current Assets on the Consolidated Balance Sheets. For the years ended December 31, 2009 and 2008, there was no impairment of the assets held for sale nor do the assets held for sale generate operating income. We continue to evaluate the assets in our total portfolio for whether events or circumstances have occurred that may affect recoverability or estimated useful life, and continue to pursue disposal of our assets held for sale.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill is the excess of the purchase price over the fair value of the net assets of acquired companies. Goodwill is not amortized but is tested annually on October 1 for impairment. Impairment of goodwill occurs when the carrying amount (book value) of goodwill exceeds its implied fair value. If the book value of goodwill is greater than the fair value on the test date, an impairment loss is recorded.

In connection with the acquisition of EnergySouth in October 2008, which we discuss in Note 3, Sempra Pipelines & Storage initially recorded goodwill of \$67 million, which was reduced to \$62 million by purchase price adjustments in 2009.

Goodwill included in Goodwill and Other Intangible Assets on the Sempra Energy Consolidated Balance Sheets is recorded as follows:

GOODWILL

(Dollars in millions)

	December 31,		December 31,	
	2009		2008	
Sempra Pipelines & Storage	\$	62	\$	67
Parent and Other		6		6
	\$	68	\$	73

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 Pipelines & Storage recorded \$460 million of intangible assets in connection with the acquisition of EnergySouth. These intangible assets represent storage and development rights related to the Bay Gas and Mississippi Hub natural gas storage facilities and were recorded at estimated fair value as of the date of the acquisition using discounted cash flows analysis. Our important assumptions in determining fair value include estimated future cash flows, the estimated useful life of the intangible assets and our use of appropriate discount rates. We are amortizing these intangible assets over their estimated useful lives as shown in the table below.

Intangible assets included in Goodwill and Other Intangible Assets on the Sempra Energy Consolidated Balance Sheets are recorded as follows:

OTHER INTANGIBLE ASSETS			
<i>(Dollars in millions)</i>			
	Amortization period (years)	December 31, 2009	December 31, 2008
Storage rights	46	\$ 138	\$ 138
Development rights	50	322	322
Other	15 years to indefinite	9	9
Total		469	469
Less accumulated amortization		(13)	(3)
Total		\$ 456	\$ 466

Amortization expense related to the above intangible assets was \$10 million in 2009, \$3 million in 2008 and a negligible amount in 2007. We estimate the aggregate amortization expense for the next five years to be \$10 million per year.

LONG-LIVED ASSETS

We periodically evaluate whether events or circumstances have occurred that may affect the recoverability or the estimated useful lives of long-lived assets, the definition of which includes intangible assets subject to amortization, but does not include unconsolidated subsidiaries. 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.

In the second quarter of 2009, we recorded a \$132 million pretax write-off related to certain assets at one of Sempra Pipelines & Storage's Liberty Gas Storage natural gas storage projects. This amount is recorded as Write-off of Long-lived Assets on our Consolidated Statement of Operations for the year ended December 31, 2009. Sempra Pipelines & Storage owns 75 percent of the partnership that is developing the project. Our partner's 25-percent share of the pretax charge is \$33 million, which is included in (Earnings) Losses Attributable to Noncontrolling Interests on our Consolidated Statement of Operations for the year ended December 31, 2009. The impact to our net income and to our earnings is \$97 million and \$64 million, respectively, for the year ended December 31, 2009. In September 2009, the members of the partnership unanimously voted to proceed with the abandonment of the assets that were written off.

VARIABLE INTEREST ENTITIES

We consolidate a variable interest entity (VIE) if we are the primary beneficiary of the VIE's activities. 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; and
- § whether the variable interest holders will absorb a majority of the VIE's expected losses or receive a majority of its expected residual returns (or both).

Otay Mesa VIE

SDG&E has a 10-year agreement to purchase power to be generated at the Otay Mesa Energy Center (OMEC), a 573-megawatt (MW) generating facility that began commercial operations in October 2009. SDG&E supplies all of the natural gas to fuel the power plant and purchases its electric generation output (i.e., 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.

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.

Based upon our analysis, SDG&E absorbs the majority of risk from Otay Mesa VIE under the combination of the tolling agreement and the put option. Accordingly, Sempra Energy and SDG&E have consolidated Otay Mesa VIE since the second quarter of 2007. The CPUC has approved an additional financial return to SDG&E to compensate it for the effect on its financial ratios from the requirement to consolidate Otay Mesa VIE. Otay Mesa VIE's equity of \$146 million and \$128 million is included on the Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interests for SDG&E at December 31, 2009 and 2008, respectively.

OMEC LLC has a loan outstanding of \$375 million at December 31, 2009, the proceeds of which were used for the construction of OMEC. The loan is with third party lenders and is secured by 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 Otay Mesa VIE. The loan 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 11.

Orange Grove VIE

SDG&E has a 25-year agreement to purchase power to be generated by Orange Grove Energy L.P. (Orange Grove), at its 94-MW generating facility located in San Diego County, California. The facility is currently under construction, and we expect it to be available for commercial operation during the second quarter of 2010. Orange Grove is a VIE (Orange Grove VIE) of which SDG&E is the primary beneficiary. During the third quarter of 2009, all of the conditions precedent in the purchased-power agreement were satisfied, therefore, effective on September 30, 2009, Sempra Energy and SDG&E have consolidated Orange Grove VIE.

Orange Grove has credit facilities that provide for a total of \$100 million for construction of the generating facility. These credit agreements are with a third party lender and are secured by Orange Grove's assets. SDG&E is not a party to the credit agreements and does not have any additional implicit or explicit financial responsibility to Orange Grove. When Orange Grove completes construction of the generating facility, or on June 30, 2010 if construction is not completed by that date, the credit facilities will convert to a term loan that matures in June 2035. Borrowings under the credit facilities bear interest at rates varying with market rates. At December 31, 2009, Orange Grove had \$87 million of outstanding borrowings under the credit facilities and \$3 million of letters of credit supported by the facilities. In addition, Orange Grove has a short-term loan outstanding of \$33 million.

The Consolidated Financial Statements of Sempra Energy and SDG&E include the following amounts associated with Otay Mesa VIE and Orange Grove VIE, which are net of eliminations of transactions between SDG&E and the VIEs:

AMOUNTS ASSOCIATED WITH VARIABLE INTEREST ENTITIES

(Dollars in millions)

	December 31,	
	2009	2008(1)
Cash and cash equivalents	\$ 7	\$ 11
Restricted cash	8	-
Accounts receivable - other	1	23
Inventories	2	-
Total current assets	18	34
Sundry	10	8
Property, plant and equipment	644	464
Total assets	\$ 672	\$ 506
Short-term debt	\$ 33	\$ -
Accounts payable	-	35
Current portion of long-term debt	40	2
Fixed-price contracts and other derivatives	17	13
Other	(13)	-
Total current liabilities	77	50
Long-term debt	422	254
Fixed-price contracts and other derivatives	26	73
Deferred credits and other	1	1
Other noncontrolling interests	146	128
Total liabilities and equity	\$ 672	\$ 506

	Years ended December 31,		
	2009	2008(1)	2007(1)
Operating revenues - electric	\$ (1)	\$ -	\$ -
Operating expenses			
Cost of electric fuel and purchased power	(13)	-	-
Operation and maintenance	7	-	-
Depreciation and amortization	7	-	-
Total operating expenses	1	-	-
Operating income	(2)	-	-
Other income (expense), net	26	(54)	(17)
Net income/Income before income taxes	24	(54)	(17)
(Earnings) losses attributable to noncontrolling interests	(24)	54	17
Earnings	\$ -	\$ -	\$ -

(1) As adjusted for the retrospective adoption of ASC 810 (SFAS 160) discussed in Note 2.

Other contracts under which SDG&E acquires power from generation facilities otherwise unrelated to SDG&E could also result in a requirement for SDG&E to consolidate the entity that owns the facility. In accordance with the current GAAP provisions governing variable interest entities, SDG&E continues the process of determining if it has any such situations and, if so, gathering the information that would be needed to perform the consolidation. However, such information has not been made available to us and an evaluation of variable interests has not been completed for these entities that are grandfathered pursuant to current GAAP guidance. The effects of any required consolidation are not expected to significantly affect the financial position, results of operations or liquidity of SDG&E.

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 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 GAAP and costs recovered through the rate-making process. We have recorded a regulatory liability to show that the Sempra 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 GAAP.

We have recorded asset retirement obligations related to various assets including:

SDG&E and SoCalGas

§ fuel and storage tanks

§ natural gas distribution system

§ 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

SoCalGas

§ natural gas transmission pipeline

§ underground natural gas storage facilities and wells

Sempra Global

§ certain power generation plants (natural gas and solar)

§ natural gas distribution and transportation systems

§ LNG receipt terminal

The changes in asset retirement obligations are as follows:

CHANGES IN ASSET RETIREMENT OBLIGATIONS

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2009	2008	2009	2008	2009	2008
Balance as of January 1(1)	\$ 1,177	\$ 1,158	\$ 554	\$ 568	\$ 595	\$ 577
Accretion expense	75	74	38	37	35	36
Liabilities incurred	17	7	-	-	-	-
Payments	(5)	(11)	(3)	(10)	(2)	(1)
Revisions to estimated cash flows	49	(57)	1	(41)	48	(17)
Acquisition of EnergySouth (see Note 3)	-	6	-	-	-	-
Balance as of December 31(1)	\$ 1,313	\$ 1,177	\$ 590	\$ 554	\$ 676	\$ 595

(1) The current portions of the obligations are included in Other Current Liabilities on the Consolidated Balance Sheets.

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 amounts 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
- § amortization of 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 Statements of Consolidated Comprehensive Income and Changes in Equity show the changes in the components of other comprehensive income (OCI), including the amounts attributable to noncontrolling interests. The components of Accumulated Other Comprehensive Income (Loss) (AOCI), shown net of income taxes on the Consolidated Balance Sheets, and the related income tax balance at December 31, 2009 and 2008 are as follows:

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) AND ASSOCIATED INCOME TAX EXPENSE (BENEFIT)

(Dollars in millions)

	Accumulated Other Comprehensive Income (Loss)		Income Tax Expense (Benefit)	
	2009	2008	2009	2008
Sempra Energy Consolidated				
Foreign currency translation loss	\$ (276)	\$ (378)	\$ -	\$ -
Financial instruments	(2)	(40)	(3)	(25)
Unrealized gains on available-for-sale securities	9	2	3	1
Unamortized net actuarial loss	(102)	(99)	(70)	(68)
Unamortized prior service credit	2	2	1	2
Balance as of December 31	\$ (369)	\$ (513)	\$ (69)	\$ (90)
SDG&E				
Unamortized net actuarial loss	\$ (11)	\$ (13)	\$ (7)	\$ (8)
Unamortized prior service credit	1	1	1	1
Financial instruments	-	(1)	-	(1)
Balance as of December 31	\$ (10)	\$ (13)	\$ (6)	\$ (8)
SoCalGas				
Unamortized net actuarial loss	\$ (5)	\$ (5)	\$ (4)	\$ (4)
Unamortized prior service credit	1	1	1	1
Financial instruments	(21)	(24)	(14)	(16)
Balance as of December 31	\$ (25)	\$ (28)	\$ (17)	\$ (19)

REVENUES

Sempra Utilities

The Sempra 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 under 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 16.

Under an operating agreement with the California Department of Water Resources (DWR), SDG&E acts 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 continue to reside 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 our Consolidated Statements of Operations. We provide discussion on electric industry restructuring related to the DWR in Note 15.

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.

The table below shows the total revenues from the Sempra Utilities in Sempra Energy's Consolidated Statements of Operations, net of sales taxes, 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 SEMPRA UTILITIES REVENUES AT SEMPRA ENERGY CONSOLIDATED(1)				
<i>(Dollars in millions)</i>				
	Years ended December 31,			
	2009	2008	2007	
Natural gas revenues	\$ 3,801	\$ 5,419	\$ 4,869	
Electric revenues	2,419	2,553	2,184	
Total	\$ 6,220	\$ 7,972	\$ 7,053	

(1) Excludes intercompany revenues.

As we discuss in Note 16, beginning April 1, 2008, the SDG&E and SoCalGas core natural gas supply portfolios were combined and are managed by SoCalGas. Effective as of that date, SoCalGas procures natural gas for SDG&E's core customers. 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' income statement.

We provide additional information concerning utility revenue recognition in "Regulatory Matters" above.

Sempra Global

Sempra Commodities

As we discuss in Notes 3 and 4, on April 1, 2008, our commodities-marketing businesses, previously wholly owned subsidiaries of Sempra Energy, were sold into RBS Sempra Commodities, a partnership jointly owned by Sempra Energy and The Royal Bank of Scotland. Therefore, beginning April 1, 2008, we account for our earnings in the partnership under the equity method. RBS Sempra Commodities generates most of its revenues from trading and marketing activities in natural gas, electricity, petroleum, petroleum products, base metals and other commodities. RBS Sempra Commodities quotes bid and ask prices to end users and other market makers. It also earns trading profits as a dealer by structuring and executing transactions. Principal transaction revenues are recognized on a trade-date basis and include realized gains and losses and the net change in unrealized gains and losses.

RBS Sempra Commodities uses derivative instruments (which we discuss further in Note 11) to reduce its exposure to unfavorable changes in market prices. Non-derivative contracts are accounted for on an accrual basis and the related profit or loss is recognized as the contracts are settled.

Sempra Generation

Sempra Generation generates revenues primarily from selling electricity to governmental and wholesale power marketing entities. These revenues are recognized as the electricity is delivered. In each of 2009, 2008 and 2007, Sempra Generation's electricity sales to the DWR accounted for a significant portion of its revenues.

Sempra Generation'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 power and natural gas.

Sempra Pipelines & Storage

Sempra Pipelines & Storage has consolidated foreign subsidiaries in Mexico. The pipeline operations in Mexico recognize revenues on the sale and transportation of natural gas as deliveries are made. The natural gas distribution utility in Mexico applies GAAP for regulated utilities, as we discuss above. Sempra Pipelines & Storage's natural gas storage and transportation operations recognize revenues when they provide services in accordance with contractual agreements for the storage and transportation services. Sempra Pipelines & Storage'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 LNG recognizes revenues on the sale of natural gas as deliveries are made and as injection services are performed, and from reservation fees under terminal capacity agreements. Sempra LNG'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.

OTHER COST OF SALES

Other Cost of Sales primarily includes the transportation and storage costs incurred at Sempra Commodities prior to April 1, 2008 and pipeline transportation and natural gas marketing costs incurred at Sempra LNG.

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, and rent.

FOREIGN CURRENCY TRANSLATION

Our foreign operations generally use their local currency as their functional currency. The assets and liabilities of our 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 Sempra Pipelines & Storage's South American investments accounted for under the equity method, the following adjustments were made to the carrying value of these investments (dollars in millions):

Investment	Currency	Upward (downward) adjustment to investments		
		2009	2008	2007
Chile	Chilean Peso	\$ 85	\$ (101)	\$ 29
Peru	Peruvian Nuevo Sol	13	(7)	8
Argentina	Argentine Peso	-	(8)	(2)

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 consolidated earnings at Sempra Energy as follows:

<i>(Dollars in millions)</i>	Years ended December 31,		
	2009	2008	2007
Currency transaction gain (loss)	\$ 3	\$ (2)	-

TRANSACTIONS WITH AFFILIATES

Loans to Unconsolidated Affiliates

In December 2001, Sempra Pipelines & Storage issued two U.S. dollar-denominated loans to affiliates: \$35 million to Camuzzi Gas Pampeana S.A. and \$22 million to Camuzzi Gas del Sur S.A. These companies are affiliates of Sempra Pipelines & Storage's Argentine investments discussed in Note 4. In June 2006, Sempra Pipelines & Storage collected the outstanding balance from Camuzzi Gas Pampeana S.A. The loan to Camuzzi Gas del Sur S.A. has a \$27 million balance outstanding at a variable interest rate (7.25 percent at December 31, 2009). The loan is fully reserved at December 31, 2009.

Loans from Unconsolidated Affiliates

At December 31, 2008, Sempra Pipelines & Storage had a \$100 million note payable due in 2011 to Chilquinta Energía Finance Co. LLC, an unconsolidated affiliate, which was paid in full in November 2009.

Investments

Sempra Pipelines & Storage has an investment in bonds issued by Chilquinta Energía S.A. that we discuss in Note 4.

Other Affiliate Transactions

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

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

	December 31,	
	2009	2008
SDG&E		
Current:		
Due from Sempra Energy	\$ 2	\$ 20
Due from SoCalGas	3	8
Due from various affiliates	3	1
	<u>\$ 8</u>	<u>\$ 29</u>
Due to various affiliates	<u>\$ -</u>	<u>\$ 1</u>
Income taxes due to (from) Sempra Energy(1)	<u>\$ (37)</u>	<u>\$ 7</u>
Noncurrent:		
Promissory note due from Sempra Energy, variable rate based on short-term commercial paper rates (0.13% at December 31, 2009)	<u>\$ 2</u>	<u>\$ 4</u>
Pacific Enterprises		
Current:		
Due from Sempra Energy	\$ 7	-
Due from various affiliates	5	5
	<u>\$ 12</u>	<u>\$ 5</u>
Due to affiliate	\$ 84	\$ 83
Due to Sempra Energy	-	15
Due to SDG&E	3	8
	<u>\$ 87</u>	<u>\$ 106</u>
Income taxes due from Sempra Energy(1)	<u>\$ 2</u>	<u>\$ 66</u>
Noncurrent:		
Promissory note due from Sempra Energy, variable rate based on short-term commercial paper rates (0.13% at December 31, 2009)	<u>\$ 513</u>	<u>\$ 457</u>
SoCalGas		
Current:		
Due from Sempra Energy	\$ 6	-
Due to Sempra Energy	\$ -	15
Due to SDG&E	3	8
	<u>\$ 3</u>	<u>\$ 23</u>
Income taxes due to (from) Sempra Energy(1)	<u>\$ (2)</u>	<u>\$ 1</u>

(1) SDG&E, PE 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 the Sempra Utilities are as follows:

REVENUES FROM UNCONSOLIDATED AFFILIATES AT THE SEMPRA UTILITIES*(Dollars in millions)*

	Years ended December 31,		
	2009	2008	2007
SDG&E	\$ 8	\$ 11	\$ 13
SoCalGas	43	36	68

Transactions with RBS Sempra Commodities

Several of our business units engage in transactions with RBS Sempra Commodities. Amounts in our Consolidated Financial Statements related to these transactions are as follows:

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

	Years ended December 31,	
	2009	2008(1)
Revenues:		
Sempra LNG(2)	\$ 60	\$ 33
Sempra Commodities	17	8
SoCalGas	13	12

Sempra Pipelines & Storage		3	-
Sempra Generation		(6)	23
Total revenues	\$	87	\$ 76
Cost of natural gas:			
Sempra LNG	\$	61	\$ -
Sempra Pipelines & Storage		25	34
SoCalGas		19	22
SDG&E		4	-
Sempra Generation		1	-
Total cost of natural gas	\$	110	\$ 56

	December 31,	
	2009	2008
Fixed-price contracts and other derivatives - Net Asset (Liability):		
Sempra Generation	\$ 7	\$ 35
Sempra LNG	(47)	(44)
Total	\$ (40)	\$ (9)

Due to unconsolidated affiliates:		
Sempra Commodities	\$ -	\$ 29
Sempra Generation	13	6
Sempra LNG	13	-
Sempra Pipelines & Storage	3	3
Total	\$ 29	\$ 38

Due from unconsolidated affiliates:		
Sempra Commodities	\$ 1	\$ 1
Sempra Generation	22	-
Sempra LNG	15	1
Parent and other	3	2
Total	\$ 41	\$ 4

(1) Nine months beginning April 1, 2008, when the partnership was formed.

(2) Includes a \$3 million loss for 2009 and a \$10 million gain for 2008 related to a natural gas sales agreement with RBS Sempra Commodities, subject to mark-to-market accounting. Under this agreement, which extends for five years beginning September 1, 2009, RBS Sempra Commodities will market natural gas that Sempra LNG purchases and does not sell under other contracts.

Revenues and Expenses with Unconsolidated Affiliates

For the quarter ended March 31, 2008 and for the full year 2007, Sempra Commodities recorded \$55 million and \$303 million, respectively, of sales to unconsolidated affiliates.

DIVIDENDS AND LOANS AT THE SEMPRA UTILITIES

The CPUC's regulation of the Sempra Utilities' capital structures limits the amounts that are available for dividends and loans to Sempra Energy. At December 31, 2009, Sempra Energy could have received combined loans and dividends of approximately \$140 million from SoCalGas and \$75 million from SDG&E.

OTHER INCOME (EXPENSE), NET

Other Income (Expense), Net on the Consolidated Statements of Operations consists of the following:

	Years ended December 31,		
	2009	2008(1)	2007(1)
OTHER INCOME (EXPENSE), NET			
<i>(Dollars in millions)</i>			
Sempra Energy Consolidated:			
Allowance for equity funds used during construction	\$ 39	\$ 35	\$ 22
Regulatory interest income (expense), net	4	(9)	(13)
Investment gains (losses)(2)	55	(53)	27
Gain (loss) on interest rate swaps, Otay Mesa VIE	27	(54)	(17)
Gain on interest rate swaps, other	6	1	24
Mexican peso exchange losses(3)	-	(57)	-
Sundry, net(4)	18	28	30
Total	\$ 149	\$ (109)	\$ 73
SDG&E:			
Allowance for equity funds used during construction	\$ 29	\$ 27	\$ 17
Regulatory interest income (expense), net	5	(5)	(7)
Gain (loss) on interest rate swaps, Otay Mesa VIE	27	(54)	(17)
Sundry, net	3	3	1
Total	\$ 64	\$ (29)	\$ (6)
SoCalGas and PE:			
Allowance for equity funds used during construction	\$ 10	\$ 8	\$ 5
Regulatory interest expense, net	(1)	(4)	(6)
Sundry, net	(2)	(2)	(2)
Total at SoCalGas	7	2	(3)
Additional at PE:			
Sundry, net	(3)	-	-
Total at PE	\$ 4	\$ 2	\$ (3)

- (1) Amounts for Sempra Energy Consolidated, SDG&E, and PE have been adjusted for the retrospective adoption of ASC 810 (SFAS 160).
- (2) Represents investment gains (losses) on dedicated assets in support of our executive retirement and deferred compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans.
- (3) The losses for the year ended December 31, 2008 were largely offset by Mexican tax benefits arising from fluctuations in the U.S. dollar/Mexican peso exchange rate and inflation rate.
- (4) The year ended December 31, 2008 includes a \$16 million cash payment received for the early termination of a capacity agreement for the Cameron LNG receipt terminal.

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, or disclosures.

SEMPRA ENERGY, SDG&E, PE AND SOCALGAS

Statement of Financial Accounting Standards (SFAS) No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162" (SFAS 168): The Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC or the Codification) became the official source of GAAP on July 1, 2009. For convenience, we have provided the prior GAAP source references in addition to the Codification reference throughout these financial statements and footnotes. In addition, the Codification changed the referencing system used to identify new accounting guidance. As a result, we refer to an accounting update issued after July 1, 2009 as an Accounting Standards Update (ASU). We refer to new pronouncements issued before July 1, 2009 by their original title.

ASU 2010-06, "Improving Disclosures About Fair Value Measurements" (ASU 2010-06): ASU 2010-06 requires the following additional fair value measurement disclosures:

§ transfers into and out of Levels 1 and 2

§ segregation of classes of assets and liabilities measured at fair value

§ valuation techniques and inputs used for Level 2 and Level 3 instruments

§ detailed activity for Level 3 instruments, including separate presentation of purchases, sales, issuances, and settlements

ASU 2010-06 applies to us beginning with the first quarter of 2010, and we will provide the additional disclosure in our 2010 interim financial statements.

ASU 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" (ASU 2009-17): ASU 2009-17 (SFAS 167) amends FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities – an interpretation of ARB No. 51 (FIN 46(R))*, which provides consolidation guidance related to variable interest entities.

ASU 2009-17 requires

§ a qualitative approach for identifying the primary beneficiary of a variable interest entity based on 1) the power to direct activities that most significantly impact the economic performance of the entity, and 2) the obligation to absorb losses or right to receive benefits that could be significant to the entity;

§ ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; and

§ separate disclosure by the primary beneficiary on the face of the balance sheet to identify 1) assets that can only be used to settle obligations of the variable interest entity, and 2) liabilities for which creditors do not have recourse to the primary beneficiary.

ASU 2009-17 applies to us beginning with the first quarter of 2010. We are evaluating the impact of its adoption on our financial position, but we do not expect it to have a material effect on earnings.

ASU 2009-12, "Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" (ASU 2009-12): ASU 2009-12 provides guidance on how to measure the fair value of investments in entities that calculate net asset value per share (NAV), such as hedge funds, private equity funds, venture capital funds and funds of funds. If the investments are measured at fair value at the entity's measurement date, investors are allowed to use NAV to estimate the fair value unless fair value is readily determinable or it is probable the investment will be sold at something other than NAV. If not calculated as of the reporting entity's measurement date, the NAV must be adjusted for significant market events occurring since the investee calculated the NAV. We adopted ASU 2009-12 on October 1, 2009, and it did not affect our financial position or results of operations. We provide additional disclosure in Note 9.

ASU 2009-05, "Measuring Liabilities at Fair Value" (ASU 2009-05): ASU 2009-05 addresses practical difficulties that arise when calculating the fair value of a liability, or the price at which the liability may be transferred to a market participant. Generally, a quoted price for an identical liability is not available because few liabilities are transferred to another party.

In the absence of a quoted price in an active market for an identical liability, ASU 2009-05 allows the following valuation techniques:

§ a quoted price of an identical or similar liability traded as an asset

§ a valuation technique consistent with ASC 820, *Fair Value Measurements and Disclosures*

We adopted ASU 2009-05 on October 1, 2009, and it did not affect our financial position or results of operations.

SFAS 165, "Subsequent Events" (SFAS 165), as amended by ASU 2010-09, "Amendments to Certain Recognition and Disclosure Requirements" (ASU 2010-09): SFAS 165 (ASC 855), as amended by ASU 2010-09, requires management to evaluate events that occur after the balance sheet date through the date that the financial statements are issued. The guidance is similar to current audit guidance and does not change the way we assess subsequent events. SFAS 165 required that companies disclose the date through which they evaluated subsequent events. ASU 2010-09 removed this requirement for companies that must file financial statements with the U.S. Securities and Exchange Commission.

We provide the required disclosure in Note 1.

SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (SFAS 160): SFAS 160 (ASC 810) amends Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent.

SFAS 160 provides guidance on the following:

§ how to report noncontrolling interests in a subsidiary in consolidated financial statements;

§ the amount of consolidated net income attributable to the parent and to the noncontrolling interest; and

§ changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated.

We adopted SFAS 160 on January 1, 2009, and the presentation and disclosure requirements must be applied retrospectively. Accordingly, Sempra Energy's, SDG&E's and PE's Consolidated Financial Statements at December 31, 2008 and for the years ended December 31, 2008 and 2007 have been reclassified to conform to the new presentation. The adoption of SFAS 160 had no effect on SoCalGas' financial statements. The pronouncement also requires disclosures that clearly identify and distinguish between the interest of the parent and the interests of the noncontrolling owners. We provide the required disclosure on the Statements of Consolidated Comprehensive Income and Changes in Equity for Sempra Energy, SDG&E and PE and in Note 1.

In connection with the adoption of SFAS 160, we evaluated the requirements of ASC 480, *Distinguishing Liabilities from Equity* (ASC 480) (EITF Topic D-98) with respect to the presentation of preferred securities, and determined that certain preferred securities at SDG&E that had been presented within the shareholders' equity section of the balance sheet should have been presented separate from and outside of shareholders' equity in a manner consistent with temporary equity defined in ASC 480-10-S99-3A. Although SDG&E believes that the effects are not material to the previously issued balance sheets, SDG&E has corrected the classification of these securities as of December 31, 2008 for comparability purposes. This change, which affects preferred securities totaling \$79 million at both December 31, 2008 and 2009, had no impact on earnings or on cash flows for any periods presented.

SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS 161): SFAS 161 (ASC 815) expands the disclosure requirements in SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133).

SFAS 161 requires disclosures about the following:

§ qualitative objectives and strategies for using derivatives;

§ quantitative disclosures of fair value amounts, and gains and losses on derivative instruments and related hedged items; and

§ credit-risk-related contingent features in derivative agreements.

We adopted SFAS 161 prospectively on January 1, 2009. We provide the required disclosure in Note 11.

FASB Staff Position (FSP) FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly"

(FSP FAS 157-4): FSP FAS 157-4 (ASC 820) concerns the determination of fair values for assets and liabilities when there is no active market or where the prices used might represent distressed sales. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The FSP also outlines factors to be used to determine whether there has been a significant decrease in the volume and level of activity for the assets and liabilities when compared with normal market activity. We adopted FSP FAS 157-4 on April 1, 2009, and it did not affect our financial position or results of operations.

FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments"

(FSP FAS 115-2 and FAS 124-2): FSP FAS 115-2 and FAS 124-2 (ASC 320) establishes a new model for determining and recording other-than-temporary impairment for debt securities. The pronouncement also requires disclosure about the fair value of investments for interim periods. Prior to the issuance of this FSP, this disclosure was required only for annual periods. We adopted FSP FAS 115-2 and FAS 124-2 on April 1, 2009, and it did not affect our financial position or results of operations. We provide the required disclosure in Note 12.

FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (FSP FAS 132(R)-1):

FSP FAS 132(R)-1 (ASC 715) requires annual disclosure about the assets held in postretirement benefit plans, including a breakdown by the level of the assets and a reconciliation of any change in Level 3 assets during the year. It requires disclosures about the following:

§ valuation inputs, with detailed disclosure required about Level 3 assets

§ asset categories, broken down to relevant detail

§ concentration of risk in plan assets

We adopted FSP FAS 132(R)-1 prospectively on December 31, 2009. We provide the required disclosure in Note 9.

SEMPRA ENERGY

FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP EITF 03-6-1):

FSP EITF 03-6-1 (ASC 260) states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities. As such, they are required to be included when computing earnings per share (EPS) under the two-class method described in SFAS 128, *Earnings per Share* (ASC 260). All prior-period EPS data are to be adjusted retrospectively to conform with the provisions of this FSP. We adopted FSP EITF 03-6-1 on January 1, 2009, and it did not have a material effect on our EPS.

EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations" (EITF 08-6): EITF 08-6 (ASC 323) clarifies accounting and impairment considerations involving equity method investments. We

adopted EITF 08-6 on January 1, 2009, and it did not have a material effect on our financial position or results of operations.

EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement" (EITF 08-5): EITF 08-5 (ASC 820) provides that an issuer of a liability with a third-party credit enhancement that is inseparable from the liability may not include the effect of the credit enhancement in the fair value measurement of the liability. We adopted EITF 08-5 on January 1, 2009, and it did not affect our financial position or results of operations.

NOTE 3. RECENT INVESTMENT ACTIVITY

SEMPRA COMMODITIES

On April 1, 2008, Sempra Energy and The Royal Bank of Scotland (RBS) completed the formation of RBS Sempra Commodities, a partnership to own and operate the commodities-marketing businesses previously operated through wholly owned subsidiaries of Sempra Energy. Our initial equity contribution to the partnership was \$1.6 billion. RBS made an initial equity contribution of \$1.665 billion and is committed to provide any additional funding required for the ongoing operations of the partnership's businesses. As a result of the transaction, we received approximately \$1.2 billion in cash, net of our contribution and including cash withdrawn from the businesses in anticipation of the transaction. We recorded an after-tax gain of \$67 million on the transaction.

We provide additional information about this transaction in Notes 4 and 6.

On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. We discuss this transaction and related agreements affecting the partnership in Note 20.

SEMPRA GENERATION

We provide information about investment activity at Sempra Generation in Note 4.

SEMPRA PIPELINES & STORAGE

In October 2008, Sempra Pipelines & Storage acquired EnergySouth, an energy services holding company based in Mobile, Alabama for \$511 million in cash and the assumption of debt. Principal holdings of EnergySouth include EnergySouth Midstream and Mobile Gas. As a natural gas distribution utility, Mobile Gas serves approximately 93,000 customers in southwest Alabama. In December 2008, EnergySouth Midstream changed its name to Sempra Midstream.

Sempra Midstream is the general partner and 91-percent owner of Bay Gas Storage Company (Bay Gas) and owned 60 percent of Mississippi Hub, LLC (Mississippi Hub) through December 31, 2008. On January 16, 2009, Sempra Midstream purchased the remaining 40-percent ownership interest of Mississippi Hub for \$94 million in cash.

Assets and liabilities assumed as of the date of Sempra Pipelines & Storage's acquisition of EnergySouth were:

<i>(Dollars in millions)</i>	September 30, 2008(1)
ASSETS	
Current assets:	
Cash	\$ 16
Accounts receivable	31
Other current assets	121
Total current assets	<u>168</u>
Property, plant and equipment	609
Goodwill and other intangible assets(2)	527
Other noncurrent assets	19
Total assets	<u>\$ 1,323</u>
LIABILITIES AND EQUITY	
Current liabilities:	
Accounts payable	\$ 85
Current portion of long-term debt	212
Other current liabilities	43
Total current liabilities	<u>340</u>
Deferred income taxes	243
Long-term debt	114
Other noncurrent liabilities	29
Total liabilities	<u>726</u>
Noncontrolling interests	86
Total liabilities and equity	<u>\$ 812</u>
Net assets acquired	<u>\$ 511</u>

(1) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

(2) As a result of the acquisition, we recorded \$67 million of goodwill, none of which is deductible for tax purposes.

The results of operations and changes in cash flows for EnergySouth are included in our Consolidated Statements of Operations and Statements of Consolidated Cash Flows from October 1, 2008.

We provide further information regarding the other intangible assets acquired in Note 1.

We discuss Sempra Pipelines & Storage's investment in Rockies Express Pipeline LLC (Rockies Express) in Note 4.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We account for investments under the equity method when we have an ownership interest of 20 to 50 percent. In these cases, our pro rata shares of the subsidiaries' net assets are included in Other Investments and in Investment in RBS Sempra Commodities LLP 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.

Equity in earnings of unconsolidated subsidiaries that is recorded before income tax is reported in Equity Earnings (Losses) – RBS Sempra Commodities LLP and in Equity Earnings (Losses) – Other on the Consolidated Statements of Operations. Equity earnings recorded net of income tax recorded by the subsidiary are reported in Equity Earnings (Losses), Net of Income Tax, on the Consolidated Statements of Operations.

The carrying value of unconsolidated subsidiaries is evaluated for impairment under the GAAP provisions for equity method investments. We account for certain investments in housing partnerships made before May 19, 1995 under the cost method, whereby the costs were amortized over ten years based on the expected residual value.

We summarize our investment balances and earnings below:

EQUITY METHOD AND OTHER INVESTMENTS ON THE CONSOLIDATED BALANCE SHEETS			
<i>(Dollars in millions)</i>			
	Investment at December 31,		
	2009	2008	
Sempra Commodities:			
Investment in RBS Sempra Commodities LLP	\$ 2,172	\$ 2,082	
Other equity method investments:			
Sempra Pipelines & Storage:			
Chilquinta Energía S.A.	\$ 373	\$ 364	
Luz del Sur S.A.	206	183	
Rockies Express	850	249	
Sempra Generation:			

Elk Hills Power	198	198
Fowler Ridge II Wind Farm	236	-
Housing partnerships	21	30
Total other equity method investments	1,884	1,024
Cost method investments - housing partnerships	12	13
Other(1)	255	129
Total	\$ 2,151	\$ 1,166

(1) Other includes Sempra Pipelines & Storage's investments in bonds, which include \$51 million in bonds issued by Chilquinta Energía S.A. at December 31, 2009 (discussed below); \$128 million in industrial development bonds at Liberty Gas Storage at December 31, 2009 and 2008; and \$75 million in industrial development bonds at Mississippi Hub at December 31, 2009 (discussed in Note 6).

EQUITY METHOD INVESTMENTS ON THE CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
Earnings (losses) recorded before tax:			
RBS Sempra Commodities LLP	\$ 463	\$ 383	\$ -
Elk Hills Power	\$ (3)	\$ 8	\$ 9
Fowler Ridge II Wind Farm	1	-	-
Housing partnerships	(12)	(14)	(14)
Rockies Express	50	43	(4)
	\$ 36	\$ 37	\$ (9)
Earnings recorded net of tax:			
Chilquinta Energía S.A.	\$ 23	\$ 28	\$ 28
Luz del Sur S.A.	38	31	27
Sodigas Pampeana and Sodigas Sur	7	1	4
Sempra Commodities:			
Gain on sale of investments	-	-	30
Earnings from operations	-	3	10
	\$ 68	\$ 63	\$ 99

The undistributed earnings of equity method investments were \$692 million and \$604 million at December 31, 2009 and December 31, 2008, respectively.

Equity method goodwill of \$252 million related to our investment in RBS Sempra Commodities is included in Investment in RBS Sempra Commodities LLP on the Sempra Energy Consolidated Balance Sheets. Equity method goodwill related to our unconsolidated subsidiaries located in South America is included in Other Investments on the Sempra Energy Consolidated Balance Sheets. These amounts, before foreign-currency translation adjustments, were \$254 million at both December 31, 2009 and 2008. Including foreign-currency translation adjustments, these amounts were

§ \$253 million at December 31, 2009

§ \$213 million at December 31, 2008

Descriptive information concerning our equity method investments by segment follows.

SEMPRA COMMODITIES

RBS Sempra Commodities is a United Kingdom limited liability partnership formed to own and operate the commodities-marketing businesses previously operated through wholly owned subsidiaries of Sempra Energy, as we discuss in Note 3. We account for our investment in RBS Sempra Commodities under the equity method.

Our share of partnership earnings is reported in the Sempra Commodities segment. Subject to certain limited exceptions, partnership pretax income is allocated each year as follows:

§ First, we receive a preferred 15-percent return on our adjusted equity capital.

§ Next, RBS receives a preferred 15-percent return on any capital in excess of capital attributable to us that is required by the U.K. Financial Services Authority to be maintained by RBS in respect of the operations of the partnership.

§ Next, we receive 70 percent of the next \$500 million in pretax income; RBS receives the remaining 30 percent.

§ Then, we receive 30 percent and RBS receives 70 percent of any remaining pretax income.

§ Any losses of the partnership are shared equally between us and RBS.

We had pretax equity earnings from RBS Sempra Commodities of \$463 million for the year ended December 31, 2009, and \$383 million for the nine months ended December 31, 2008. The partnership income that is distributable to us on an annual basis is computed on the partnership's basis of accounting, International Financial Reporting Standards (IFRS), as adopted by the European Union. This distributable income, on an IFRS basis, was \$300 million for the year ended December 31, 2009, and \$389 million for the nine months ended December 31, 2008. In 2009 and 2008, we received cash distributions from the partnership of \$407 million and \$85 million, respectively.

We have indemnified the partnership for certain litigation and tax liabilities related to the businesses purchased by the partnership. We recorded these obligations at a fair value of \$5 million on April 1, 2008, the date we formed the partnership. This liability is being amortized over its expected life.

On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. We discuss this transaction and related agreements, including expected changes in earnings sharing, affecting the partnership in Note 20.

We provide information regarding the Sempra Commodities segment in Note 18.

The following tables show summarized financial information for RBS Sempra Commodities (on a GAAP basis):

RBS SEMPra COMMODITIES SUMMARIZED FINANCIAL INFORMATION

(Dollars in millions)

	Year ended December 31, 2009		Nine months ended December 31, 2008	
Gross revenues and fee income	\$	2,179	\$	2,051
Gross profit		1,461		1,370
Income from continuing operations		639		592
Partnership net income		639		592
		December 31,		
		2009	2008	
Current assets	\$	7,272	\$	8,713
Noncurrent assets		521		516
Current liabilities		4,074		5,581

Investments in Other Unconsolidated Subsidiaries

In February 2007, Sempra Commodities sold its interests in an equity method investment, along with a related cost-basis investment, receiving cash and a 12.7-percent interest in a newly formed entity. The after-tax gain on this transaction, recorded in Equity Earnings (Losses), Net of Income Tax, on the Consolidated Statements of Operations, was \$30 million.

Available-for-Sale Securities

Sempra Commodities recorded purchases of available-for-sale securities of \$1 million in the first quarter of 2008 and \$12 million in the year 2007. Sempra Commodities had no sales of available-for-sale securities in 2008 prior to the formation of the joint venture. Sempra Commodities sold \$20 million of available-for-sale securities in 2007, yielding proceeds of \$54 million. The cost basis of the sales was determined by the specific identification method and pretax gains of \$34 million were realized as a result of the sales in 2007. There was no impairment of available-for-sale securities in 2008.

In June 2009, we reclassified into earnings a \$7 million loss associated with available-for-sale securities held by RBS Sempra Commodities.

SEMPRA GENERATION

The 550-MW Elk Hills Power (Elk Hills) plant located near Bakersfield, California began commercial operations in July 2003. Elk Hills is 50-percent owned by Sempra Generation.

During 2009, Sempra Generation invested \$235 million to become an equal partner with BP Wind Energy, a wholly owned subsidiary of BP p.l.c., in the development of the 200-MW Fowler Ridge II Wind Farm (Fowler Ridge II) project near Indianapolis, Indiana. The project became operational in December 2009. The project uses 133 wind turbines, each with the ability to generate 1.5 MW. The project's entire power output has been sold under four long-term contracts, each for 50 MW and 20-year terms. Our investment in Fowler Ridge II is accounted for as an equity method investment.

SEMPRA PIPELINES & STORAGE

Sempra Pipelines & Storage owns a 25-percent interest in Rockies Express, a partnership that operates a natural gas pipeline, the Rockies Express Pipeline (REX), that links producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Kinder Morgan Energy Partners, L.P. (KMP) and ConocoPhillips (Conoco) own the remaining interests of 50 percent and 25 percent, respectively. We made investments in Rockies Express of \$625 million in 2009, \$150 million in 2008 and \$100 million in 2007. We provide additional information in Note 6.

Sempra Pipelines & Storage owns a 50-percent interest in Chilquinta Energía S.A., a Chilean electric utility, and a 38-percent interest in Luz del Sur S.A., a Peruvian electric utility. In November 2009, Sempra Pipelines & Storage purchased \$50 million of 2.75-percent bonds issued by Chilquinta Energía S.A. that are 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. The bonds mature on October 30, 2014. The carrying value of the bonds after the effect of foreign currency translation was \$51 million at December 31, 2009.

Sempra Pipelines & Storage also owns 43 percent of two Argentine natural gas utility holding companies, Sodigas Pampeana and Sodigas Sur. 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 Pipelines & Storage has reduced the carrying value of its investment by a cumulative total of \$270 million as of December 31, 2009. 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).

The Argentine economic decline and government responses (including Argentina's unilateral, retroactive abrogation of utility agreements early in 2002) continue to adversely affect the operations of these Argentine utilities. In 2002, Sempra Pipelines & Storage initiated arbitration proceedings at the International Center for the Settlement of Investment Disputes (ICSID) under the 1994 Bilateral Investment Treaty between the United States and Argentina for recovery of the diminution of the value of its investments that has resulted from Argentine governmental actions. In September 2007, the tribunal officially closed the arbitration proceedings and awarded us compensation of \$172 million, which includes interest up to the award date. In January 2008, Argentina filed an action at the ICSID seeking to annul the award. The Annulment Committee lifted the stay of enforcement so that we may now attach and sell any non-sovereign assets of the Argentine government. The annulment hearing was held in early September 2009 and we anticipate a decision by the second quarter of 2010. We will not recognize the award until collectibility is assured.

In December 2006, we decided to sell our Argentine investments, and we continue to actively pursue their sale. We adjusted our investments to estimated fair value and recorded a noncash impairment charge to 2006 earnings of \$221 million.

The following tables show summarized financial information for Sodigas Pampeana and Sodigas Sur:

SODIGAS PAMPEANA AND SODIGAS SUR – SUMMARIZED FINANCIAL INFORMATION					
<i>(Dollars in millions)</i>					
	Years ended December 31,				
	2009	2008	2007	2006	2005
Gross revenues	\$ 241	\$ 232	\$ 227		
Gross profit	100	110	111		
Income from operations	30	12	21		
Gain on sale of assets	1	1	1		
Net income	20	4	14		

	At December 31,	
	2009	2008
Current assets	\$ 75	\$ 93
Noncurrent assets	294	323
Current liabilities	169	192
Noncurrent liabilities	26	25

SEMPRA FINANCIAL

Prior to June 2006, Sempra Financial invested as a limited partner in affordable-housing properties. Sempra Financial's portfolio included 1,300 properties throughout the United States that provided income tax benefits (primarily from income tax credits). In June 2006, Sempra Financial effectively sold the majority of its interests in affordable-housing projects to an unrelated party subject to certain guarantees. Because of the guarantees, the transaction was recorded as a financing transaction rather than as a sale, and we continue to consolidate the investments in the housing partnerships. The transaction almost completely eliminated the income tax benefits from the investments.

OTHER EQUITY METHOD INFORMATION

We present aggregated information below for:

§ Chilquinta Energía S.A.

§ Luz del Sur S.A.

§ Elk Hills Power

§ Fowler Ridge II, beginning in 2009

§ Rockies Express

§ Sempra Commodities' investments (prior to the formation of RBS Sempra Commodities)

§ Sempra Energy's housing partnerships (accounted for under the equity method)

OTHER EQUITY METHOD INFORMATION*(Dollars in millions)*

	Years ended December 31,		
	2009	2008	2007
Gross revenues	\$ 1,192	\$ 1,852	\$ 1,570
Gross profit	429	487	456
Income from operations	194	234	225
Gain (loss) on sale of assets	-	(46)	7
Net income	173	171	138

	At December 31,	
	2009	2008
Current assets	\$ 1,056	\$ 795
Noncurrent assets	3,395	2,091
Current liabilities	405	324
Noncurrent liabilities	625	519

NOTE 5. DISCONTINUED OPERATIONS

In June 2006, in line with our previously announced plan to focus resources on the development of our core businesses, we decided to sell Bangor Gas and Frontier Energy, Sempra Pipelines & Storage's natural gas distribution companies located in Maine and North Carolina, respectively. The sales of Frontier Energy and Bangor Gas were completed on September 30, and November 30, 2007, respectively, for a total of \$5 million in cash.

We have reported the above operations as discontinued for all periods presented in our Consolidated Financial Statements and summarize the income statement information concerning our discontinued operations in the table below.

DISCONTINUED OPERATIONS	
<i>(Dollars in millions)</i>	
	Year ended December 31, 2007
Revenues	\$ 10
Income from operations, before income taxes	\$ 2
Income tax expense	(4)
	(2)
Loss on disposal, before income taxes	(2)
Income tax expense	(23)
Consolidated state tax adjustment	1
	(24)
	\$ (26)

NOTE 6. DEBT AND CREDIT FACILITIES**COMMITTED LINES OF CREDIT**

At December 31, 2009, Sempra Energy Consolidated had \$4.3 billion in committed lines of credit to provide liquidity and to support commercial paper and variable-rate demand notes, the major components of which are detailed below. Available unused credit on these lines at December 31, 2009 was \$3.6 billion.

These amounts exclude lines of credit associated with Sempra Commodities, some of which we continue to guarantee, as we discuss below in "RBS Sempra Commodities." RBS has replaced Sempra Energy as guarantor on all uncommitted lines of credit associated with Sempra Commodities. To the extent that Sempra Energy's credit support arrangements, including Sempra Commodities' committed facilities, have not been terminated or replaced, RBS has indemnified Sempra Energy for any claims or losses arising in connection with those arrangements.

Sempra Energy

Sempra Energy has a \$1 billion, three-year syndicated revolving credit agreement expiring in 2011. Citibank, N.A. serves as administrative agent for the syndicate of 17 lenders. No single bank has greater than an 11-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. The actual ratio at December 31, 2009, calculated as defined in the agreement, was 48.1 percent.

At December 31, 2009, Sempra Energy had no outstanding borrowings under the facility.

Sempra Global

Sempra Global has a \$2.5 billion, three-year syndicated revolving credit agreement expiring in 2011. Citibank, N.A. serves as administrative agent for the syndicate of 18 lenders. No single bank has greater than an 11-percent share. The facility also provides for issuance of up to \$300 million of letters of credit on behalf of Sempra Global with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

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, 2009, Sempra Global had letters of credit of \$7 million outstanding and no outstanding borrowings under the facility. The facility provides support for \$460 million of commercial paper outstanding at December 31, 2009. At December 31, 2008, \$600 million of the \$1.1 billion commercial paper outstanding under this facility 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. The classification had no impact on cash flows.

Sempra Utilities

SDG&E and SoCalGas have a combined \$800 million, three-year syndicated revolving credit agreement expiring in 2011. JPMorgan Chase Bank serves as administrative agent for the syndicate of 17 lenders. No single bank has greater than a 10-percent share. The agreement permits each utility to individually borrow up to \$600 million, subject to a combined limit of \$800 million for both utilities. It also provides for the issuance of letters of credit on behalf of each utility subject to a combined letter of credit commitment of \$200 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit.

Borrowings under the facility bear interest at benchmark rates plus a margin that varies with market index rates and the borrowing utility's credit rating. 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. The actual ratios for SDG&E and SoCalGas at December 31, 2009, calculated as defined in the agreement, were 48.8 percent and 42.3 percent, respectively.

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, 2009, SDG&E and SoCalGas had no outstanding borrowings under this facility. SDG&E had \$25 million of outstanding letters of credit and \$237 million of variable-rate demand notes outstanding supported by this facility at December 31, 2009. Available unused credit on these lines at December 31, 2009 was \$338 million at SDG&E and \$538 million at SoCalGas; SoCalGas' availability reflects the impact of SDG&E's use of the combined credit available on the line.

RBS Sempra Commodities

RBS is obligated to provide RBS Sempra Commodities with all growth capital, working-capital requirements and credit support. However, as a transitional measure, we continue to provide back-up guarantees for a portion of RBS Sempra Commodities' trading obligations and for a credit facility with third party lenders pending novation (legal transfer) of the remaining trading obligations to RBS, or after the closing of the transaction we discuss in Note 20, to J.P. Morgan Ventures Energy Corporation. Some of these back-up guarantees may continue for a prolonged period of time. RBS, which is controlled by the government of the United Kingdom, has fully indemnified us for any claims or losses in connection with these arrangements.

RBS Sempra Commodities' net trading liabilities supported by Sempra Energy's guarantees at December 31, 2009 were \$798 million, consisting of guaranteed trading obligations net of collateral. The amount of guaranteed net trading liabilities varies from day to day with the value of the trading obligations and related collateral.

Sempra Energy also has guaranteed \$344 million of \$1.72 billion of RBS Sempra Commodities' commitments under a credit facility expiring September 29, 2010. Extensions of credit under the committed facility, which totaled \$968 million at December 31, 2009, are limited to and secured by a borrowing base consisting of receivables, inventories and other joint venture assets that are valued at varying percentages of current market value. At December 31, 2009, the gross market value of the borrowing base assets was \$3.3 billion. The facility will be reduced and end as the borrowing base assets are transferred to RBS as established by the joint-venture agreement.

On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. We discuss this transaction and related agreements affecting the partnership in Note 20.

OTHER GUARANTEES

As discussed in Note 4, Sempra Energy, Conoco and KMP hold 25-percent, 25-percent and 50-percent ownership interests, respectively, in Rockies Express. Rockies Express operates a natural gas pipeline linking natural gas producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Rockies Express has a \$2 billion, five-year credit facility expiring in 2011 that provides for revolving extensions of credit that are guaranteed by Sempra Energy, Conoco and KMP in proportion to their respective ownership percentages.

Borrowings under the facility bear interest at rates varying with market rates plus a margin that varies with the credit ratings of the lowest-rated guarantor. The facility requires each guarantor to comply with various financial and other covenants comparable to those contained in its senior unsecured credit facilities. In the case of Sempra Energy, the primary requirement is that we maintain a ratio of total indebtedness to total

capitalization (as defined in the facility) of no more than 65 percent at the end of each quarter. Rockies Express had \$1.7 billion of outstanding borrowings under this facility at December 31, 2009, of which \$418 million is guaranteed by Sempra Energy. The recorded fair value of this guarantee is negligible.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rate on the total short-term debt outstanding at Sempra Energy was 0.79 percent at December 31, 2009. The weighted average interest rate on the total short-term debt outstanding at Sempra Energy, including commercial paper borrowings classified as long-term, was 4.985 percent at December 31, 2008.

LONG-TERM DEBT

The following tables show the detail and maturities of long-term debt outstanding:

LONG-TERM DEBT*(Dollars in millions)*

	December 31,	
	2009	2008
SDG&E		
First mortgage bonds:		
6.8% June 1, 2015	\$ 14	\$ 14
5.3% November 15, 2015	250	250
Variable rate (0.25% at December 31, 2009) July, 1 2018(1)	161	161
5.85% June 1, 2021(1)	60	60
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
6% June 1, 2039	300	-
Variable rate (0.20% at December 31, 2009) May 1, 2039(1)	75	75
	<u>1,936</u>	<u>1,636</u>
Other long-term debt (unsecured unless otherwise noted):		
5.9% June 1, 2014	130	130
5.3% July 1, 2021(1)	39	39
5.5% December 1, 2021(1)	60	60
4.9% March 1, 2023(1)	25	25
OMECEC LLC loan at variable rates (1.75% at December 31, 2009) payable 2010 through April 2019 (secured by project assets)	375	256
Orange Grove Energy L.P. project financing at variable rates (4.37% at December 31, 2009) June 30, 2010 (secured by project assets)(2)	87	-
Capital lease obligations	20	-
	<u>736</u>	<u>510</u>
	2,672	2,146
Current portion of long-term debt	(45)	(2)
Unamortized discount on long-term debt	(4)	(2)
Total SDG&E	<u>2,623</u>	<u>2,142</u>
SoCalGas		
First mortgage bonds:		
4.375% January 15, 2011	100	100
Variable rates after fixed-to-floating rate swaps (0.28% at December 31, 2009) January 15, 2011	150	150
4.8% October 1, 2012	250	250
5.5% March 15, 2014	250	250
5.45% April 15, 2018	250	250
5.75% November 15, 2035	250	250
Variable rate December 1, 2009	-	100
	<u>1,250</u>	<u>1,350</u>
Other long-term debt (unsecured):		
4.75% May 14, 2016(1)	8	8
5.67% January 18, 2028	5	5
Capital lease obligations	26	-
Market value adjustments for interest rate swap, net (expires January 18, 2011)	7	9
	<u>46</u>	<u>22</u>
	1,296	1,372
Current portion of long-term debt	(11)	(100)
Unamortized discount on long-term debt	(2)	(2)
Total SoCalGas	<u>1,283</u>	<u>1,270</u>

LONG-TERM DEBT (Continued)*(Dollars in millions)*

	December 31,	
	2009	2008
Other Sempra Energy		
First mortgage bonds:		
6.9% payable 2010 through 2017	8	8
8.75% payable 2010 through 2022	8	9
7.48% payable 2010 through 2023	6	7
	22	24
Other long-term debt (unsecured unless otherwise noted):		
Commercial paper borrowings at variable rates, classified as long-term debt	-	600
6.5% Notes June 1, 2016	750	-
6% Notes October 15, 2039	750	-
9.8% Notes February 15, 2019	500	500
6.15% Notes June 15, 2018	500	500
6% Notes February 1, 2013	400	400
Notes at variable rates after fixed-to-floating swap (3.71% at December 31, 2009)		
March 1, 2010	300	300
8.9% Notes November 15, 2013	250	250
7.95% Notes March 1, 2010	200	200
6.3% Notes December 31, 2021(1)	128	128
4.5% Notes July 1, 2024(1)	75	-
Employee Stock Ownership Plan		
Bonds at 5.781% (fixed rate to July 1, 2010) November 1, 2014(1)	50	50
Bonds at variable rates (1.4% at December 31, 2009) November 1, 2014(1)	7	22
Notes at 2.87% to 5.05% payable 2010 through 2013(1)	50	58
Industrial development bonds at variable rates (1.5% at December 31, 2009)		
August 1, 2037, secured(1)	55	55
8.45% Notes payable 2010 through 2017, secured	36	39
Debt incurred to acquire limited partnerships, secured by real estate,		
8.05% January 15, 2009	-	2
4.75% Notes May 15, 2009	-	300
Other debt	2	1
Market value adjustments for interest rate swap, net (expiring March 1, 2010)	7	15
	4,060	3,420
	4,082	3,444
Current portion of long-term debt	(517)	(308)
Unamortized discount on long-term debt	(11)	(4)
Total other Sempra Energy	3,554	3,132
Total Sempra Energy Consolidated	\$ 7,460	\$ 6,544

(1) *Callable long-term debt.*(2) *This credit facility will convert to a long-term loan maturing in June 2035.*

MATURITIES OF LONG-TERM DEBT(1)*(Dollars in millions)*

	SDG&E	SoCalGas	Other Sempra Energy	Total Sempra Energy Consolidated
2010	\$ 40	\$ -	\$ 510	\$ 550
2011	11	250	30	291
2012	11	250	13	274
2013	11	-	672	683
2014	141	250	64	455
Thereafter	2,438	513	2,786	5,737
Total	\$ 2,652	\$ 1,263	\$ 4,075	\$ 7,990

(1) Excludes capital lease obligations and market value adjustments for interest rate swaps.

Various long-term obligations totaling \$4.2 billion at Sempra Energy at December 31, 2009 are unsecured. This includes unsecured long-term obligations totaling \$254 million at SDG&E and \$13 million at SoCalGas.

In May 2009, Sempra Energy publicly offered and sold \$750 million of 6.5-percent notes, maturing in 2016. In October 2009, Sempra Energy publicly offered and sold \$750 million of 6.0-percent notes, maturing in 2039.

CALLABLE LONG-TERM DEBT

At the option of Sempra Energy, SDG&E and SoCalGas, certain debt is callable subject to premiums at various dates:

CALLABLE LONG-TERM DEBT*(Dollars in millions)*

	SDG&E	SoCalGas	Other Sempra Energy	Total Sempra Energy Consolidated
2010	\$ 221	\$ -	\$ 365	\$ 586
2013	45	-	-	45
2014	124	-	-	124
after 2014	356	8	-	364
Total	\$ 746	\$ 8	\$ 365	\$ 1,119
Callable bonds subject to make-whole provisions	\$ 1,300	\$ 1,250	\$ 3,708	\$ 6,258

In addition, the OMEC LLC project financing loan and the Orange Grove Energy L.P. project financing loan, discussed in Note 1, with \$375 million and \$87 million, respectively, of borrowings at December 31, 2009, may be prepaid at the borrowers' option.

FIRST MORTGAGE BONDS

The Sempra Utilities issue first mortgage bonds which are secured by a lien on utility plant. The Sempra 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 \$3.3 billion of first mortgage bonds at SDG&E and \$536 million at SoCalGas at December 31, 2009.

In May 2009, SDG&E publicly offered and sold \$300 million of 6.0-percent first mortgage bonds, maturing in 2039.

INDUSTRIAL DEVELOPMENT BONDS

SDG&E

During 2008, Sempra Energy purchased \$413 million of industrial development bonds, net of sales and purchases with SDG&E as the cash flow needs of each entity changed. SDG&E purchased \$488 million of the bonds during 2008, and sold \$228 million to Sempra Energy during 2008. The bonds were initially issued as insured, auction-rate securities, the proceeds of which were loaned to SDG&E, and are repaid with payments on SDG&E first mortgage bonds that have terms corresponding to those of the industrial development bonds that they secure.

In December 2008, SDG&E remarketed \$237 million of these industrial development bonds. These included \$75 million remarketed at an initial daily floating rate of 0.65 percent (maturing in 2039), and \$161 million initially remarketed for a three-month term at a rate of 1.00 percent (maturing in 2018). Beginning in March 2009, the interest rate on the \$161 million series is reset on a weekly basis.

The remaining industrial development bonds, \$24 million held by SDG&E and \$152 million held by Sempra Energy, were classified as available-for-sale securities and included in Short-term Investments on the Consolidated Balance Sheets at December 31, 2008.

In June 2009, SDG&E remarketed the remaining \$176 million of these bonds at a fixed rate of 5.875 percent, maturing in 2034. Prior to SDG&E's remarketing of the remaining bonds in 2009, SDG&E purchased \$152 million of the bonds from Sempra Energy.

Sempra Pipelines & Storage

In July 2009, to secure an approved exemption from sales and use tax, Sempra Pipelines & Storage incurred \$75 million out of a maximum available \$265 million of long-term debt related to the construction and equipping of its Mississippi Hub Gas Storage facility. 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.

In 2006, in order to reduce its property tax, Sempra Pipelines & Storage incurred \$128 million of long-term debt related to the development of its Liberty Gas Storage (Liberty) facility in Calcasieu Parish, Louisiana. The debt is payable to the Calcasieu Parish Industrial Development Board. Related to the debt, we recorded bonds receivable from the Industrial Development Board for the same amount. Both the financing obligation and the bonds receivable have interest rates of 6.3 percent and are due on December 31, 2021.

DEBT OF EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) AND TRUST (TRUST)

The ESOP covers substantially all Sempra Energy employees, including those of SDG&E and SoCalGas. The Trust is used to fund part of the retirement savings plan described in Note 9. The notes of the ESOP are payable by the Trust and mature in 2014.

In July 2007, \$50 million of these notes was repriced at an interest rate of 5.781 percent for a three-year term ending July 1, 2010. The remaining \$7 million of the notes is repriced weekly and subject to repurchase at our option. ESOP debt was paid down by a total of \$35 million during the last three years when 815,593 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 amounted to \$3 million in 2009 and \$4 million in each of 2008 and 2007. Dividends used for debt service amounted to \$2 million in each of 2009, 2008 and 2007.

INTEREST RATE SWAPS

We discuss our fair value interest rate swaps and interest rate swaps to hedge cash flows in Note 11.

NOTE 7. FACILITIES UNDER JOINT OWNERSHIP

San Onofre Nuclear Generating Station (SONGS) and the Southwest Powerlink transmission line are owned jointly by SDG&E with other utilities. SDG&E's interests at December 31, 2009 were as follows:

<i>(Dollars in millions)</i>	SONGS	Southwest Powerlink
Percentage ownership	20 %	91 %
Utility plant in service	\$ 117	\$ 323
Accumulated depreciation and amortization	28	183
Construction work in progress	157	12

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 each project and participates in decisions concerning operations

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 DECOMMISSIONING

Objectives, work scope, and procedures for the dismantling and decontamination of the SONGS' units must meet the requirements of the Nuclear Regulatory Commission (NRC), the Environmental Protection Agency (EPA), the U.S. Department of the Navy (the land owner), the CPUC and other regulatory bodies.

SDG&E's asset retirement obligation related to decommissioning costs for the SONGS units was \$474 million at December 31, 2009. That amount includes the cost to decommission Units 2 and 3, and the remaining cost to complete the decommissioning of Unit 1, which is currently in progress. Southern California Edison (Edison), the operator of SONGS, updates decommissioning cost studies every three years. Rate recovery of decommissioning costs is allowed until the time that the costs are fully recovered and is subject to adjustment every three years based on the costs allowed by regulators. Collections are authorized to continue until 2022. The most recent cost study is under review by the CPUC, and we expect a decision by mid-2010. SDG&E's share of costs under the revised study is approximately \$760 million.

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 when Units 2 and 3 are decommissioned. The ISFSI will be decommissioned after a permanent storage facility becomes available and the U.S. Department of Energy (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 decommissioned.

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.

NUCLEAR DECOMMISSIONING TRUSTS					
<i>(Dollars in millions)</i>					
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
As of December 31, 2009:					
Debt securities:					
U.S. government(1)	\$ 141	\$ 12	\$ (3)	\$ 150	
Municipal bonds(2)	85	3	(3)	85	
Total debt securities	226	15	(6)	235	
Equity securities	238	188	(5)	421	
Cash and other securities(3)	21	1	-	22	
Total available-for-sale securities	\$ 485	\$ 204	\$ (11)	\$ 678	
As of December 31, 2008:					
Debt securities:					
U.S. government	\$ 127	\$ 28	\$ -	\$ 155	
Municipal bonds	69	1	(9)	61	
Total debt securities	196	29	(9)	216	
Equity securities	251	105	(36)	320	
Cash and other securities	40	3	(2)	41	
Total available-for-sale securities	\$ 487	\$ 137	\$ (47)	\$ 577	

(1) Maturity dates are 2011-2039.

(2) Maturity dates are 2010-2057.

(3) Maturity dates are 2010-2049.

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

	Years ended December 31,		
	2009	2008	2007
Proceeds from sales	\$ 224	\$ 458	\$ 578
Gross realized gains	6	18	18
Gross realized losses	(33)	(40)	(12)

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.

The fair value of securities in an unrealized loss position as of December 31, 2009 was \$110 million. The unrealized losses of \$11 million were primarily caused by a negative market environment. We do not consider these investments to be other than temporarily impaired as of December 31, 2009.

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.

We discuss the impact of asset retirement obligations in Note 1. We provide additional information about SONGS in Notes 15 and 17.

NOTE 8. INCOME TAXES

Reconciliation of net U.S. statutory federal income tax rates to the effective income tax rates are as follows:

	RECONCILIATION OF FEDERAL INCOME TAX RATES TO EFFECTIVE INCOME TAX RATES					
	Years ended December 31,					
	2009		2008(1)		2007(1)	
Sempra Energy Consolidated						
U.S. federal statutory income tax rate	35	%	35	%	35	%
Utility depreciation	3		3		3	
State income taxes, net of federal income tax benefit	3		3		4	
Tax credits	(1)		(1)		(3)	
Allowance for equity funds used during construction	(1)		(1)		(1)	
Non-U.S. earnings taxed at lower statutory income tax rates	(5)		(2)		(1)	

Resolution of Internal Revenue Service audits	(2)		(2)		-	
Utility repair allowance	(1)		(1)		(1)	
Self-developed software expenditures	(3)		(2)		(1)	
Mexican foreign exchange and inflation effects	1		(3)		-	
Variable interest entities	(1)		1		-	
Noncontrolling interests	1		-		-	
Other, net	-		-		(1)	
Effective income tax rate	29	%	30	%	34	%

SDG&E

U.S. federal statutory income tax rate	35	%	35	%	35	%
Depreciation	4		4		5	
State income taxes, net of federal income tax benefit	4		5		5	
Allowance for equity funds used during construction	(2)		(2)		(1)	
Resolution of Internal Revenue Service audits	(1)		(3)		(3)	
Utility repair allowance	(1)		(2)		(2)	
Self-developed software expenditures	(2)		(3)		(2)	
Regulatory reserve release	-		-		(2)	
Variable interest entities	(2)		4		1	
Other, net	(3)		(2)		(3)	
Effective income tax rate	32	%	36	%	33	%

PE

U.S. federal statutory income tax rate	35	%	35	%	35	%
Depreciation	6		5		6	
State income taxes, net of federal income tax benefit	4		4		5	
Self-developed software expenditures	(6)		(3)		(1)	
Other, net	(4)		(5)		(5)	
Effective income tax rate	35	%	36	%	40	%

SoCalGas

U.S. federal statutory income tax rate	35	%	35	%	35	%
Depreciation	6		6		6	
State income taxes, net of federal income tax benefit	4		4		5	
Self-developed software expenditures	(6)		(3)		(1)	
Other, net	(5)		(6)		(4)	
Effective income tax rate	34	%	36	%	41	%

(1) As adjusted at Sempra Energy, SDG&E and PE for the retrospective adoption of ASC 810 (SFAS 160).

The geographic components of Income from Continuing Operations Before Income Taxes and Equity Earnings of Certain Unconsolidated Subsidiaries at Sempra Energy are as follows:

<i>(Dollars in millions)</i>	Years ended December 31,		
	2009	2008(1)	2007(1)
U.S.	\$ 1,007	\$ 1,199	\$ 1,275
Non-U.S.	469	244	268
Total	\$ 1,476	\$ 1,443	\$ 1,543

(1) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

The components of income tax expense are as follows:

INCOME TAX EXPENSE <i>(Dollars in millions)</i>	Years ended December 31,		
	2009	2008	2007
Sempra Energy Consolidated			
Current:			
U.S. Federal	\$ 39	\$ (10)	\$ 247
U.S. State	40	28	77
Non-U.S.	48	96	51
Total	127	114	375
Deferred:			
U.S. Federal	216	359	124
U.S. State	24	29	(5)
Non-U.S.	58	(59)	36
Total	298	329	155
Deferred investment tax credits	(3)	(5)	(6)
Total income tax expense	\$ 422	\$ 438	\$ 524
SDG&E			
Current:			
U.S. Federal	\$ 70	\$ 25	\$ 131
U.S. State	34	23	44
Total	104	48	175
Deferred:			
U.S. Federal	75	107	(24)
U.S. State	(2)	8	(14)
Total	73	115	(38)
Deferred investment tax credits	-	(2)	(2)
Total income tax expense	\$ 177	\$ 161	\$ 135
PE			
Current:			
U.S. Federal	\$ 52	\$ 28	\$ 122
U.S. State	21	21	33
Total	73	49	155
Deferred:			
U.S. Federal	68	89	15
U.S. State	7	6	(2)
Total	75	95	13
Deferred investment tax credits	(3)	(3)	(3)
Total income tax expense	\$ 145	\$ 141	\$ 165
SoCalGas			
Current:			
U.S. Federal	\$ 52	\$ 31	\$ 119
U.S. State	22	22	33
Total	74	53	152
Deferred:			
U.S. Federal	67	85	14
U.S. State	6	5	(3)
Total	73	90	11
Deferred investment tax credits	(3)	(3)	(3)
Total income tax expense	\$ 144	\$ 140	\$ 160

We show details of accumulated deferred income taxes at December 31 for Sempra Energy, SDG&E, PE and SoCalGas in the tables below:

ACCUMULATED DEFERRED INCOME TAXES FOR SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	December 31,	
	2009	2008
Deferred income tax liabilities:		
Differences in financial and tax bases of depreciable and amortizable assets	\$ 1,528	\$ 1,323
Regulatory balancing accounts	501	632
Unrealized revenue	25	22
Loss on reacquired debt	18	21
Property taxes	34	31
Difference in financial and tax bases of partnership interests	85	46
Other	61	15
Total deferred income tax liabilities	2,252	2,090
Deferred income tax assets:		
Investment tax credits	35	37
Equity losses	3	6
Net operating losses of separate state and foreign entities	21	77
Compensation-related items	177	193
Postretirement benefits	510	609
Other deferred assets	41	4
State income taxes	50	35
Bad debt allowance	7	7
Litigation and other accruals not yet deductible	129	233
Deferred income tax assets before valuation allowances	973	1,201
Less: valuation allowances	29	26
Total deferred income tax assets	944	1,175
Net deferred income tax liability	\$ 1,308	\$ 915

Our policy is to show deferred taxes of VIEs on a net basis, including valuation allowances. See table "Amounts Associated with Variable Interest Entities" in Note 1 for further information on VIEs.

ACCUMULATED DEFERRED INCOME TAXES FOR SDG&E, PE AND SOCALGAS

(Dollars in millions)

	SDG&E		PE		SoCalGas	
	December 31,		December 31,		December 31,	
	2009	2008	2009	2008	2009	2008
Deferred income tax liabilities:						
Differences in financial and tax bases of utility plant and other assets	\$ 737	\$ 625	\$ 360	\$ 278	\$ 363	\$ 281
Regulatory balancing accounts	190	229	322	413	322	413
Loss on reacquired debt	8	10	11	13	11	13
Property taxes	24	20	12	13	12	13
Other	16	-	-	-	-	-
Total deferred income tax liabilities	975	884	705	717	708	720
Deferred income tax assets:						
Postretirement benefits	152	173	283	357	285	359
Investment tax credits	18	18	19	21	19	21
Compensation-related items	17	14	50	49	51	49
State income taxes	25	22	16	17	16	16
Litigation and other accruals not yet deductible	25	37	33	74	32	75
Hedging transaction	-	-	11	16	11	16
Other	5	9	15	20	8	11
Total Deferred income tax assets	242	273	427	554	422	547
Net deferred income tax liability	\$ 733	\$ 611	\$ 278	\$ 163	\$ 286	\$ 173

Our policy is to show deferred taxes of VIEs on a net basis, including valuation allowances. See table "Amounts Associated with Variable Interest Entities" in Note 1 for further information on VIEs.

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		PE		SoCalGas	
	2009	2008	2009	2008	2009	2008	2009	2008
	Current (asset) liability	\$ (10)	\$ (31)	\$ (41)	\$ (17)	\$ 5	\$ 6	\$ 6
Noncurrent liability	1,318	946	774	628	273	157	280	167
Total	\$ 1,308	\$ 915	\$ 733	\$ 611	\$ 278	\$ 163	\$ 286	\$ 173

At December 31, 2009, Sempra Energy had established a valuation allowance against a portion of its total deferred income tax assets, as described above. 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 tax asset in the future. At both Sempra Energy and SDG&E, deferred income taxes for variable interest entities are shown on a net basis. Therefore, a valuation allowance of \$117 million related to variable interest entities is not reflected in the tables above. Of Sempra Energy's total valuation allowance of \$29 million, \$18 million is related to non-U.S. net operating losses, \$7 million to other future deductions, and \$4 million to U.S. state and local net operating losses. The total valuation allowance, excluding the amount related to variable interest entities, increased during 2009, when compared to 2008, primarily due to the increase in the valuation allowance established for U.S. state and local net operating losses. This increase was offset by a decrease in the valuation allowance established for U.S. state and local capital losses. We believe that it is more likely than not that the remainder of the total deferred income tax asset is realizable.

At December 31, 2009, Sempra Energy's non-U.S. subsidiaries had \$46 million of unused net operating losses (NOLs) available to utilize in the future to reduce Sempra Energy's future non-U.S. income tax expense, which is in Denmark, Netherlands and Spain. The carry forward periods on our non-U.S. unused NOLs are as follows: \$18 million does not expire and \$28 million expires between 2011 and 2023. As of December 31, 2009, \$215 million of Mexican subsidiary NOLs, which have been utilized on a consolidated level, are subject to recapture between 2013 and 2015 if the Mexican subsidiary that generated them does not have sufficient taxable income itself to realize them within 5 years. These NOLs expire between 2013 and 2019. Sempra Energy's U.S. subsidiaries had \$100 million of unused U.S. state and local NOLs, primarily in Louisiana, Connecticut, Alabama and Washington D.C. These U.S. state and local NOLs expire between 2010 and 2028. We have not recorded income tax benefits on a portion of these NOLs because they were incurred in jurisdictions where we currently believe they will not be realized, as discussed above.

At December 31, 2009, Sempra Energy had not recognized a U.S. deferred income tax liability on \$1.5 billion of cumulative undistributed earnings of non-U.S. subsidiaries that we expect to reinvest indefinitely outside the U.S. These 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 amount of U.S. income taxes that might be payable if these earnings were eventually distributed. U.S. deferred income taxes will be recorded when it is determined that all, or a part, of these earnings are no longer intended to be reinvested indefinitely.

Sempra Commodities recorded synthetic fuels tax credits of \$32 million in 2007.

Following is a summary of unrecognized tax benefits at December 31:

SUMMARY OF UNRECOGNIZED TAX BENEFITS

(Dollars in millions)

	Sempra Energy Consolidated			SDG&E			PE/SoCalGas		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Total	\$ 94	\$ 104	\$ 131	\$ 14	\$ 18	\$ 26	\$ 11	\$ 19	\$ 40
Of the total, amounts related to tax positions that, if recognized, in future years, would:									
decrease the effective tax rate	\$ (76)	\$ (64)	\$ (109)	\$ (13)	\$ (17)	\$ (23)	\$ (1)	\$ -	\$ (22)
increase the effective tax rate	\$ 13	\$ 17	\$ 44	\$ 13	\$ 17	\$ 22	\$ -	\$ -	\$ 21

Following is a reconciliation of the changes in unrecognized tax benefits for the years ended December 31:

RECONCILIATION OF UNRECOGNIZED TAX BENEFITS			
<i>(Dollars in millions)</i>			
	2009	2008	2007
Sempra Energy Consolidated:			
Balance as of January 1	\$ 104	\$ 131	\$ 110
Increase in prior period tax positions	44	23	53
Decrease in prior period tax positions	(3)	(4)	(16)
Increase in current period tax positions	15	4	8
Decrease in current period tax positions	-	(5)	(2)
Settlements with taxing authorities	(54)	(38)	(16)
Expirations of statutes of limitations	(12)	(7)	(6)
Balance as of December 31	\$ 94	\$ 104	\$ 131
SDG&E:			
Balance as of January 1	\$ 18	\$ 26	\$ 40
Increase in prior period tax positions	1	2	6
Decrease in prior period tax positions	-	-	(9)
Increase in current period tax positions	3	3	3
Decrease in current period tax positions	-	(1)	(1)
Settlements with taxing authorities	(8)	(12)	(13)
Balance as of December 31	\$ 14	\$ 18	\$ 26
PE/SoCalGas:			
Balance as of January 1	\$ 19	\$ 40	\$ 33
Increase in prior period tax positions	1	-	12
Decrease in prior period tax positions	-	-	(2)
Settlements with taxing authorities	(1)	(21)	(3)
Expirations of statutes of limitations	(8)	-	-
Balance as of December 31	\$ 11	\$ 19	\$ 40

It is reasonably possible that within the next 12 months unrecognized tax benefits could decrease due to the following:

POSSIBLE DECREASES IN UNRECOGNIZED TAX BENEFITS WITHIN 12 MONTHS			
<i>(Dollars in millions)</i>			
	At December 31,		
	2009	2008	2007
Sempra Energy Consolidated:			
Expiration of statutes of limitations on tax assessments	\$ (7)	\$ (6)	\$ (20)
Potential resolution of audit issues with various U.S. federal, state and local and non-U.S. taxing authorities	(24)	(17)	(30)
Impact of federal and state timing items affecting taxable income	-	(3)	(10)
	<u>\$ (31)</u>	<u>\$ (26)</u>	<u>\$ (60)</u>
SDG&E:			
Expiration of statutes of limitations on tax assessments	\$ -	\$ -	\$ (6)
Potential resolution of audit issues with various U.S. federal, state and local taxing authorities	-	-	(4)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10)</u>
PE/SoCalGas:			
Expiration of statutes of limitations on tax assessments	\$ (6)	\$ (3)	\$ (3)
Potential resolution of audit issues with various U.S. federal, state and local taxing authorities	(1)	-	(22)
Impact of federal and state timing items affecting taxable income	-	(3)	(10)
	<u>\$ (7)</u>	<u>\$ (6)</u>	<u>\$ (35)</u>

Amounts accrued for interest expense and penalties associated with income taxes are included in income tax expense on the Consolidated Statements of Operations and in various income tax balances on the Consolidated Balance Sheets. As of December 31, the following amounts were accrued:

INTEREST EXPENSE AND PENALTIES ASSOCIATED WITH INCOME TAXES									
<i>(Dollars in millions)</i>									
	Sempra Energy Consolidated			SDG&E			PE/SoCalGas		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Interest expense (benefit)	\$ 2	\$ 18	\$ (7)	\$ (2)	\$ 2	\$ (11)	\$ 1	\$ 4	\$ 3
Penalties	4	1	2	-	-	-	1	-	-

INCOME TAX AUDITS

Sempra Energy is subject to U.S. federal income tax as well as to income tax of multiple state and foreign jurisdictions. We remain subject to examination for U.S. federal tax years after 2005. We are subject to examination by major state tax jurisdictions for tax years after 2001. Certain major foreign income tax returns from 1995 through the present are open to examination.

In addition, we have filed state refund claims for tax years back to 1998. The pre-2002 tax years are closed to new issues; therefore, no additional tax may be assessed by the taxing authorities for these years.

SDG&E, PE 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 2005 and by major state tax jurisdictions for years after 2001.

In addition, PE has state refund claims for tax years back to 1993. The pre-2002 tax years are closed to new issues; therefore, no additional tax may be assessed by the taxing authorities for these years.

NOTE 9. EMPLOYEE BENEFIT PLANS

We are required by applicable 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 a defined benefit postretirement plan 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 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 together cover substantially all employees and Sempra Energy's board of directors. The plans generally provide defined benefits based on years of service and either final average or career salary.

Sempra Energy also has other postretirement benefit plans, including separate plans for SDG&E and SoCalGas, which together cover substantially all employees and Sempra Energy's board of directors. 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.

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
- § compensation increase rates
- § payout elections (lump sum or annuity)

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.

In support of its Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including investments in life insurance contracts, which totaled \$453 million and \$401 million at December 31, 2009 and 2008, respectively.

PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Benefit Plan Amendments Affecting 2008 and 2009

Effective January 1, 2009, one of Sempra Energy's pension plans, separate from the Sempra Utilities' plans, was amended to increase the cash balance benefit obligation for certain participants. This amendment resulted in an increase of \$3 million in the benefit obligation and unrecognized prior service costs as of December 31, 2008.

Effective October 1, 2009, the SDG&E pension plan was amended to set the automatic cost of living adjustment for retirees with grandfathered benefits at 0 percent for the period beginning October 1, 2009 and ending September 30, 2010. Without this amendment, the automatic cost of living adjustment for 2009 would have been negative, resulting in a reduction in benefits. This amendment resulted in an increase of \$3 million in the benefit obligation and net periodic benefit costs as of December 31, 2009 for Sempra Energy and SDG&E.

During 2009, the SoCalGas pension plan was amended to provide a minimum benefit for participants that transfer from a position covered by the represented employees' pension plan to a management position covered by the cash balance plan after June 29, 2005. This amendment resulted in an increase of \$1 million in the benefit obligation and unrecognized prior service costs as of December 31, 2009 for Sempra Energy and SoCalGas.

Effective December 1, 2009, the Sempra Utilities' other postretirement benefit plans were amended to establish a health reimbursement account benefit for represented retirees. This amendment resulted in an increase of \$2 million, \$4 million, and \$6 million in the benefit obligation and unrecognized prior service costs as of December 31, 2009 for SDG&E, SoCalGas, and Sempra Energy, respectively.

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 2009 and 2008, and a statement of the funded status at December 31, 2009 and 2008:

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS

(Dollars in millions)

Sempra Energy Consolidated	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	\$ 2,865	\$ 2,791	\$ 934	\$ 871
Acquisition of EnergySouth	-	27	-	2
Service cost	74	71	26	24
Interest cost	170	166	56	53
Plan amendments	4	3	6	-
Actuarial loss	169	6	5	34
Curtailments	-	-	-	(5)
Settlements	(34)	(22)	-	-
Benefit payments	(165)	(184)	(44)	(48)

Federal subsidy (Medicare Part D)	-	-	2	2
Other	-	7	-	1
Net obligation at December 31	3,083	2,865	985	934
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	1,742	2,528	545	743
Acquisition of EnergySouth	-	36	-	4
Actual return on plan assets	402	(682)	112	(194)
Employer contributions	185	66	45	40
Settlements	(34)	(22)	-	-
Benefit payments	(165)	(184)	(44)	(48)
Other	-	-	-	-
Fair value of plan assets at December 31	2,130	1,742	658	545
Funded status at December 31	\$ (953)	\$ (1,123)	\$ (327)	\$ (389)
Net recorded liability at December 31	\$ (953)	\$ (1,123)	\$ (327)	\$ (389)

The significant increase in actuarial loss in 2009 related to pension benefits for Sempra Energy, as well as for SDG&E and SoCalGas below, resulted primarily from a decrease in the discount rate from 6.00 percent in 2008 to 5.60 percent, 5.40 percent and 5.75 percent in 2009 for Sempra Energy, SDG&E and SoCalGas, respectively.

The actuarial loss for other postretirement plans in 2009 also increased due to a decrease in discount rates, from 6.10 percent to 5.55 percent, 5.75 percent and 5.90 percent at Sempra Energy, SDG&E and SoCalGas, respectively. However, this increase was more than offset by favorable claims experience and projections, primarily due to the decrease in the average cost for pre-65 retirees relative to the average cost of the total population for certain medical plans for SDG&E and SoCalGas.

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS*(Dollars in millions)*

SDG&E	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	\$ 814	\$ 803	\$ 148	\$ 139
Service cost	23	22	5	5
Interest cost	48	47	9	9
Plan amendments	3	-	2	-
Actuarial loss (gain)	58	(7)	2	1
Transfer of liability to other plans	(1)	(2)	-	-
Settlements	-	(1)	-	-
Benefit payments	(37)	(48)	(6)	(6)
Net obligation at December 31	908	814	160	148
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	480	684	61	67
Actual return on plan assets	115	(191)	10	(16)
Employer contributions	58	38	16	16
Settlements	-	(1)	-	-
Transfer of assets to other plans	(1)	(2)	-	-
Benefit payments	(37)	(48)	(6)	(6)
Fair value of plan assets at December 31	615	480	81	61
Funded status at December 31	\$ (293)	\$ (334)	\$ (79)	\$ (87)
Net recorded liability at December 31	\$ (293)	\$ (334)	\$ (79)	\$ (87)

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS*(Dollars in millions)*

SoCalGas	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	\$ 1,653	\$ 1,624	\$ 748	\$ 694
Service cost	42	40	18	17
Interest cost	98	97	45	42
Plan amendments	1	-	4	-
Actuarial loss (gain)	74	7	(1)	33
Benefit payments	(105)	(115)	(36)	(40)
Transfer of liability from other plans	1	-	-	-
Federal subsidy (Medicare Part D)	-	-	2	2
Net obligation at December 31	1,764	1,653	780	748
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	1,105	1,657	471	663
Actual return on plan assets	255	(438)	99	(174)
Employer contributions	76	1	28	22
Transfer of assets from other plans	1	-	-	-
Benefit payments	(105)	(115)	(36)	(40)
Fair value of plan assets at December 31	1,332	1,105	562	471
Funded status at December 31	\$ (432)	\$ (548)	\$ (218)	\$ (277)
Net recorded liability at December 31	\$ (432)	\$ (548)	\$ (218)	\$ (277)

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 postretirement benefit costs over a period of years. Sempra Energy uses the asset smoothing method for its pension and other postretirement plans, except for the SDG&E 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. SoCalGas also uses the asset smoothing method.

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 or credits in these assets and/or liabilities are normally recorded to other comprehensive income (loss) on the balance sheet. The Sempra 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.

The Sempra 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 GAAP for pension and other postretirement benefit plans. Mobile Gas records annual pension and other postretirement net periodic benefit cost based on an estimate of the net periodic cost at the beginning of the year calculated in accordance with 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 are disclosed as regulatory adjustments in accordance with 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	
	2009	2008	2009	2008
Sempra Energy Consolidated				
Current liabilities	\$ (27)	\$ (25)	\$ (1)	\$ -
Noncurrent liabilities	(926)	(1,098)	(326)	(389)
Net recorded liability	\$ (953)	\$ (1,123)	\$ (327)	\$ (389)
SDG&E				
Current liabilities	\$ (2)	\$ (2)	\$ -	\$ -
Noncurrent liabilities	(291)	(332)	(79)	(87)
Net recorded liability	\$ (293)	\$ (334)	\$ (79)	\$ (87)
SoCalGas				
Current liabilities	\$ (6)	\$ (2)	\$ -	\$ -
Noncurrent liabilities	(426)	(546)	(218)	(277)
Net recorded liability	\$ (432)	\$ (548)	\$ (218)	\$ (277)

Amounts recorded in Accumulated Other Comprehensive Income (Loss) as of December 31, 2009 and 2008, net of 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	
	2009	2008		2009	2008
Sempra Energy Consolidated					
Net actuarial loss	\$ (98)	\$ (97)		\$ (4)	\$ (2)
Prior service credit	2	1		-	1
Total	\$ (96)	\$ (96)		\$ (4)	\$ (1)
SDG&E					
Net actuarial loss	\$ (11)	\$ (13)			
Prior service credit	1	1			
Total	\$ (10)	\$ (12)			
SoCalGas					
Net actuarial loss	\$ (5)	\$ (5)			
Prior service credit	1	1			
Total	\$ (4)	\$ (4)			

The accumulated benefit obligations for defined benefit pension plans at December 31, 2009 and 2008 were as follows:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2009	2008	2009	2008	2009	2008
Accumulated benefit obligation	\$ 2,886	\$ 2,668	\$ 895	\$ 803	\$ 1,601	\$ 1,493

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>	2009	2008
Sempra Energy Consolidated		
Projected benefit obligation	\$ 2,835	\$ 2,621
Accumulated benefit obligation	2,660	2,449
Fair value of plan assets	2,130	1,742
SDG&E		
Projected benefit obligation	\$ 878	\$ 787
Accumulated benefit obligation	870	780
Fair value of plan assets	615	480
SoCalGas		
Projected benefit obligation	\$ 1,730	\$ 1,623
Accumulated benefit obligation	1,571	1,466
Fair value of plan assets	1,332	1,105

Net Periodic Benefit Cost, 2007-2009

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						
<i>(Dollars in millions)</i>						
Sempra Energy Consolidated	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Net Periodic Benefit Cost						
Service cost	\$ 74	\$ 71	\$ 76	\$ 26	\$ 24	\$ 26
Interest cost	170	166	164	56	53	54
Expected return on assets	(139)	(161)	(158)	(45)	(48)	(44)
Amortization of:						
Prior service cost (credit)	7	4	5	(1)	(1)	(3)
Actuarial loss	23	8	8	3	-	6
Regulatory adjustment	28	(22)	(34)	7	7	7
Special termination benefit charge	-	-	1	-	-	-
Curtailment charge (credit)	-	-	6	-	(3)	-
Settlement charge	14	8	-	-	-	-
Total net periodic benefit cost	177	74	68	46	32	46

Other Changes in Plan Assets and Benefit Obligations
Recognized in Other Comprehensive Income

Net loss (gain)	9	54	(12)	3	1	(2)
Prior service cost (credit)	-	3	(4)	-	-	-
Amortization of prior service credit	-	-	-	1	1	1
Amortization of actuarial loss	(8)	(8)	(8)	-	-	-
Total recognized in other comprehensive income	1	49	(24)	4	2	(1)
Total recognized in net periodic benefit cost and other comprehensive income	\$ 178	\$ 123	\$ 44	\$ 50	\$ 34	\$ 45

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME

(Dollars in millions)

SDG&E	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Net Periodic Benefit Cost						
Service cost	\$ 23	\$ 22	\$ 22	\$ 5	\$ 5	\$ 5
Interest cost	48	47	47	9	9	8
Expected return on assets	(32)	(46)	(45)	(3)	(4)	(3)
Amortization of:						
Prior service cost	4	1	2	4	3	3
Actuarial loss	16	2	2	-	-	-
Regulatory adjustment	2	14	2	2	2	2
Settlement charge	2	2	-	-	-	-
Total net periodic benefit cost	63	42	30	17	15	15

Other Changes in Plan Assets and Benefit Obligations
Recognized in Other Comprehensive Income

Net gain	(1)	(4)	(6)	-	-	-
Amortization of actuarial loss	(2)	(2)	(2)	-	-	-
Total recognized in other comprehensive income	(3)	(6)	(8)	-	-	-
Total recognized in net periodic benefit cost and other comprehensive income	\$ 60	\$ 36	\$ 22	\$ 17	\$ 15	\$ 15

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME*(Dollars in millions)*

SoCalGas	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Net Periodic Benefit Cost						
Service cost	\$ 42	\$ 40	\$ 41	\$ 18	\$ 17	\$ 19
Interest cost	98	97	96	45	42	44
Expected return on assets	(94)	(103)	(102)	(41)	(43)	(40)
Amortization of:						
Prior service cost (credit)	2	2	2	(4)	(4)	(6)
Actuarial loss	1	1	1	3	-	6
Settlement charge	1	-	-	-	-	-
Regulatory adjustment	28	(36)	(36)	6	5	5
Total net periodic benefit cost	78	1	2	27	17	28
Other Changes in Plan Assets and Benefit Obligations						
Recognized in Other Comprehensive Income						
Net loss (gain)	1	(1)	-	-	-	-
Amortization of actuarial loss	(1)	(1)	(1)	-	-	-
Total recognized in other comprehensive income	-	(2)	(1)	-	-	-
Total recognized in net periodic benefit cost and other comprehensive income	\$ 78	\$ (1)	\$ 1	\$ 27	\$ 17	\$ 28

The estimated net loss for the pension plans that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in 2010 is \$11 million for Sempra Energy Consolidated and \$1 million at both SDG&E and SoCalGas. Negligible amounts of prior service credit for the pension plans will be similarly amortized.

The estimated prior service credit for the other postretirement benefit plans that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in 2010 is \$1 million at Sempra Energy.

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. We have determined that benefits provided to certain participants actuarially will be at least equivalent to Medicare Part D. Thus, we are entitled to a tax-exempt subsidy that reduced our accumulated postretirement benefit obligation under our plans at January 1, 2009 and reduced the net periodic cost for 2009 by the following amounts:

<i>(Dollars in millions)</i>	Sempra Energy		
	Consolidated	SDG&E	SoCalGas
Accumulated postretirement benefit obligation reduction	\$ 96	\$ 21	\$ 71
Net periodic benefit cost reduction	10	2	7

Assumptions for Pension and Other Postretirement Benefit Plans**Benefit Obligation and Net Periodic Benefit Cost**

We develop the discount rate assumptions based on the results of a third party modeling tool that matches each plan's expected future benefit payments to a bond yield curve to determine their present value. We then calculate a single equivalent discount rate that produces the same present value. The modeling tool uses an actual portfolio of 500 to 600 non-callable bonds with a Moody's Aa rating with an outstanding value of at least \$50 million to develop the bond yield curve. This reflects over \$300 billion in outstanding bonds with approximately 50 issues having maturities in excess of 20 years.

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

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATION AS OF DECEMBER 31:				
Discount rate	5.63 %	6.00 %	5.86 %	6.10 %
Rate of compensation increase	4.50 %	4.50 %	(1)	(2)

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET
PERIODIC BENEFIT COST FOR YEARS ENDED DECEMBER 31:

Sempra Energy Consolidated

Discount rate	(3)	6.10 %	(4)	6.20 %
Expected return on plan assets	7.00 %	7.00 %	6.19 %	6.88 %
Rate of compensation increase	(5)	(5)	(1)	(2)

SDG&E

Discount rate	6.00 %	6.10 %	6.10 %	6.20 %
Expected return on plan assets	7.00 %	7.00 %	6.25 %	5.89 %
Rate of compensation increase	(6)	(6)	N/A	N/A

SoCalGas

Discount rate	6.00 %	6.10 %	6.10 %	6.20 %
Expected return on plan assets	7.00 %	7.00 %	7.00 %	7.00 %
Rate of compensation increase	(6)	(6)	(1)	(2)

- (1) 4.00% for the life insurance and Health Reimbursement Arrangement (HRA) benefits for SoCalGas' represented employees. There are no compensation-based benefits for all other postretirement benefit plans.
- (2) 4.00% for the life insurance benefits for SoCalGas' represented employees. There are no compensation-based benefits for all other postretirement benefit plans.
- (3) 6.10% for EnergySouth pension plans, 6.00% for all others.
- (4) 5.85% for the Executive Life Plan, 6.10% for all others.
- (5) 4.50% for the unfunded pension plans and 4.00% for the funded pension plan for SoCalGas' represented participants. An age-based formula is used for all the other funded pension plans' participants.
- (6) 4.50% for the unfunded pension plan. An age-based formula is used for the funded pension plan.

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:

	2009	2008
ASSUMED HEALTH-CARE COST TREND RATES AT DECEMBER 31:		
Health-care cost trend rate(1)	9.00 %	9.44 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	5.50 %	5.50 %
Year that the rate reaches the ultimate trend	2016	2014 and 2016 (2)

- (1) In 2008, the rate is the weighted average of the increases for all of our health plans. The rate for these plans ranged from 8.50% to 10.00%.
- (2) The ultimate trend rate is reached in 2014 for HMOs and 2016 for Anthem Blue Cross in 2008.

A one-percent change in assumed health-care cost trend rates would have the following effects:

(Dollars in millions)	Sempra Energy Consolidated		SDG&E		SoCalGas	
	1% Increase	1% Decrease	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health-care benefit cost	\$ 11	\$ (9)	\$ 1	\$ (1)	\$ 10	\$ (8)
Effect on the health-care component of the accumulated other postretirement benefit obligation	\$ 101	\$ (83)	\$ 6	\$ (5)	\$ 93	\$ (76)

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 Sempra Utilities' other postretirement plans. Other than index weight, 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, such as the Morgan Stanley Capital International (MSCI) US Investable Index, the MSCI Pacific Rim and Europe Indices, the MSCI Emerging Markets Index, and the Barclays Aggregate and Long Government Credit Indices.

Both the equity and fixed income portions of the asset allocation use primarily passive investment strategies to achieve risk and return exposures consistent with these indices. The fixed income asset allocation consists of some longer-duration fixed income securities in order to reduce plan exposure to interest rate variation. The foreign equity components provide a growth element, diversification and exposure to different currencies and economies.

The asset allocation of the plans is reviewed by our Pension and Benefits Investment Committee (the Committee) on a regular basis. When evaluating its strategic asset allocation, the Committee considers 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 Committee determines otherwise.

Rate of Return Assumption

For all plans except the SDG&E postretirement medical plans, we base the long-term rate of return assumption on the asset-weighted-average of the expected return for each asset class. We develop the expected returns from examining periods of historical returns and expectations for future returns from several investment and actuarial consultants. Specifically, we reached a 7.0 percent return expectation by assuming a 4.5 percent yield/return on a risk-free bond portfolio (treasury securities), adding a 50 basis point risk premium for our investment grade bond portfolio and another 300 basis point risk premium for equity securities. A 70 percent equity/30 percent bond portfolio mix results in a total portfolio return expectation of approximately 7.0 percent.

The expected rate of return for the SDG&E postretirement medical plan assets is based on the weighted average after-tax expected return of the portfolio's target asset allocation of 30 percent equity/70 percent fixed income. The fixed-income portfolio is invested in tax-exempt municipal bond securities, while the equity portfolio is invested 25 percent S&P (Standard & Poor's) 500 index/5 percent MSCI EAFE index (MSCI Index for equity market performance in Europe, Australasia and Far East).

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 SoCalGas' Other Postretirement Benefit Plans

SoCalGas' other postretirement benefit plans are funded by cash contributions from SoCalGas and current retirees. The assets of these plans are placed in the pension master trust and other Voluntary Employee Beneficiary Association (VEBA) trusts, as we detail below. The assets in the VEBA trusts are invested at identical allocations to the pension master trust, 70 percent equities/30 percent bonds, using primarily index funds. This allocation has been formulated to best suit the long-term nature of the obligations.

Investment Strategy for SDG&E's Postretirement Health Plans

SDG&E's postretirement health plans are funded by cash contributions from SDG&E and current retirees. The assets are placed in the pension master trust and a VEBA trust, as we detail below. Assets in the pension master trust are invested at the 70 percent equity/30 percent bond asset mix using index funds. Assets in the VEBA trust are taxable and therefore have a different asset allocation strategy. These assets are invested with a target asset allocation of 30 percent equity/70 percent bonds, with a large portion of the bond portfolio placed in actively managed tax-exempt municipal bonds. The equity portfolio is indexed.

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 Sempra 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;

§ Level 3, for securities and investments valued based on the lowest level of input that is significant to the fair value measurement.

We provide more discussion of fair value measurements in Notes 1 and 2. The following table sets forth by level within the fair value hierarchy a summary of the investments in Sempra Energy's pension and other postretirement benefit plan trusts measured at fair value on a recurring basis at December 31, 2009.

The fair values of our pension plan assets by asset category are as follows:

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009

(Dollars in millions)

	Level 1	Level 2	Level 3	Total
Sempra Energy Consolidated				
Pension Plans - Investment Assets				
SDG&E (see table below)	\$ 459	\$ 141	\$ 9	\$ 609
SoCalGas (see table below)	996	304	19	1,319
Other Sempra Energy				
Equity securities:				
Domestic large-cap(1)	60	-	-	60
Domestic mid-cap(1)	12	-	-	12
Domestic small-cap(1)	8	-	-	8
Foreign emerging market funds	-	12	-	12
Foreign large-cap	30	-	-	30
Foreign mid-cap	6	-	-	6
Foreign small-cap	4	-	-	4
Registered investment company	2	-	-	2
Fixed income securities:				
U.S. Treasury securities	15	-	-	15
Other U.S. government securities	-	13	-	13
Foreign government bonds	-	1	-	1
Domestic corporate bonds(2)	-	14	-	14
Foreign corporate bonds	-	3	-	3
Other types of investments:				
Private equity funds(3) (stated at net asset value)	-	-	2	2
Total other Sempra Energy(4)	137	43	2	182
Total Sempra Energy Consolidated(5)	\$ 1,592	\$ 488	\$ 30	\$ 2,110

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.

(2) Investment-grade bonds of U.S. issuers from diverse industries.

(3) Investments in venture capital and real estate funds.

(4) Excludes cash balance of \$1 million.

(5) Excludes cash balance of \$20 million.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009*(Dollars in millions)*

	Level 1	Level 2	Level 3	Total
SDG&E				
Equity securities:				
Domestic large-cap(1)	\$ 198	\$ -	\$ -	\$ 198
Domestic mid-cap(1)	41	-	-	41
Domestic small-cap(1)	27	-	-	27
Foreign emerging market funds	-	37	-	37
Foreign large-cap	101	-	-	101
Foreign mid-cap	21	-	-	21
Foreign small-cap	15	-	-	15
Registered investment company	5	-	-	5
Fixed income securities:				
U.S. Treasury securities	51	-	-	51
Other U.S. government securities	-	42	-	42
Domestic municipal bonds	-	3	-	3
Foreign government bonds	-	5	-	5
Domestic corporate bonds(2)	-	48	-	48
Foreign corporate bonds	-	11	-	11
Other types of investments:				
Securities lending program(3)	-	(5)	-	(5)
Private equity funds(4) (stated at net asset value)	-	-	9	9
Total investment assets(5)	\$ 459	\$ 141	\$ 9	\$ 609

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.

(2) Investment grade bonds of U.S. issuers from diverse industries.

(3) An obligation to return collateral in excess of assets held under a securities lending agreement, allocated to each of the plans that hold assets in the pension master trust. Some of the collateral held in asset-backed securities is impaired.

(4) Investments in venture capital and real estate funds.

(5) Excludes cash balance of \$6 million.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009
(Dollars in millions)

	Level 1	Level 2	Level 3	Total
SoCalGas				
Equity securities:				
Domestic large-cap(1)	\$ 428	\$ -	\$ -	\$ 428
Domestic mid-cap(1)	88	-	-	88
Domestic small-cap(1)	60	-	-	60
Foreign emerging market funds	-	81	-	81
Foreign large-cap	220	-	-	220
Foreign mid-cap	46	-	-	46
Foreign small-cap	33	-	-	33
Registered investment company	11	-	-	11
Fixed income securities:				
U.S. Treasury securities	110	-	-	110
Other U.S. government securities	-	90	-	90
Domestic municipal bonds	-	6	-	6
Foreign government bonds	-	11	-	11
Domestic corporate bonds(2)	-	104	-	104
Foreign corporate bonds	-	23	-	23
Other types of investments:				
Securities lending program(3)	-	(11)	-	(11)
Private equity funds(4) (stated at net asset value)	-	-	19	19
Total investment assets(5)	\$ 996	\$ 304	\$ 19	\$ 1,319

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.

(2) Investment grade bonds of U.S. issuers from diverse industries.

(3) An obligation to return collateral in excess of assets held under a securities lending agreement, allocated to each of the plans that hold assets in the pension master trust. Some of the collateral held in asset-backed securities is impaired.

(4) Investments in venture capital and real estate funds.

(5) Excludes cash balance of \$13 million.

The investments of the pension master trust allocated to the pension plans classified as Level 3 are private equity funds and represent a percentage of each plan's total allocated assets as follows:

<i>(Dollars in millions)</i>	Private Equity Funds			
	SDG&E	SoCalGas	All Other	Total
Total Level 3 investment assets	\$ 9	\$ 19	\$ 2	\$ 30
Percentage of total investment assets	1%	1%	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	Total
Balance as of January 1, 2009	\$ 9	\$ 21	\$ 2	\$ 32
Realized gains	-	1	-	1
Unrealized gains relating to instruments still held at the reporting date	-	(2)	-	(2)
Purchases, sales and settlements - net	-	(1)	-	(1)
Balance as of December 31, 2009	\$ 9	\$ 19	\$ 2	\$ 30

The fair values 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 plans (PBOP plan trusts) at December 31, 2009, by asset category are as follows:

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009
(Dollars in millions)

	Level 1	Level 2	Level 3	Total
Sempra Energy Consolidated				
Other Postretirement Benefit Plans - Investment assets				
SDG&E (see table below)	\$ 40	\$ 40	\$ 1	\$ 81
SoCalGas (see table below)	201	323	4	528
Other Sempra Energy				
Equity securities:				
Domestic large-cap(1)	4	-	-	4
Domestic mid-cap(1)	1	-	-	1
Foreign emerging market funds	-	2	-	2

Foreign large-cap	1	-	-	1
Registered investment company	1	-	-	1
Fixed income securities:				
U.S. Treasury securities	2	-	-	2
Other U.S. government securities	-	1	-	1
Foreign government bonds	-	1	-	1
Domestic corporate bonds(2)	-	2	-	2
Common/collective trusts(3)	-	1	-	1
Other types of investment:				
Securities lending program(4)	-	(1)	-	(1)
Total other Sempra Energy	9	6	-	15
Total Sempra Energy Consolidated(5)	\$ 250	\$ 369	\$ 5	\$ 624

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.

(2) Investment-grade bonds of U.S. issuers from diverse industries.

(3) Investment in common/collective trusts held in a PBOP plan trust.

(4) An obligation to return collateral in excess of assets held under a securities lending agreement, allocated to each of the plans that hold assets in the pension master trust. Some of the collateral held in asset-backed securities is impaired.

(5) Excludes cash balance of \$34 million, \$30 million of which is held in a SoCalGas PBOP plan trust.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009*(Dollars in millions)*

	Level 1	Level 2	Level 3	Total
SDG&E				
Equity securities:				
Domestic large-cap(1)	\$ 19	\$ -	\$ -	\$ 19
Domestic mid-cap(1)	4	-	-	4
Domestic small-cap(1)	2	-	-	2
Foreign emerging market funds	-	2	-	2
Foreign large-cap	9	-	-	9
Foreign mid-cap	2	-	-	2
Foreign small-cap	1	-	-	1
Fixed income securities:				
U.S. Treasury securities	3	-	-	3
Other U.S. government securities	-	3	-	3
Domestic municipal bonds(2)	-	10	-	10
Domestic corporate bonds(3)	-	3	-	3
Foreign corporate bonds	-	1	-	1
Common/collective trusts	-	21	-	21
Other types of investment:				
Private equity funds(4) (stated at net asset value)	-	-	1	1
Total investment assets	\$ 40	\$ 40	\$ 1	\$ 81

*(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.**(2) Bonds of California municipalities held in the SDG&E PBOP plan trusts.**(3) Investment-grade bonds of U.S. issuers from diverse industries.**(4) Investments in venture capital and real estate funds.*

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009
(Dollars in millions)

	Level 1	Level 2	Level 3	Total
SoCalGas				
Equity securities:				
Domestic large-cap(1)	\$ 86	-	\$ -	\$ 86
Domestic mid-cap(1)	18	-	-	18
Domestic small-cap(1)	12	-	-	12
Foreign emerging market funds	-	16	-	16
Broad market fund(2)	-	189	-	189
Foreign large-cap	45	-	-	45
Foreign mid-cap	9	-	-	9
Foreign small-cap	7	-	-	7
Registered investment company	2	-	-	2
Fixed income securities:				
U.S. Treasury securities	22	-	-	22
Other U.S. government securities	-	18	-	18
Domestic municipal bonds	-	1	-	1
Foreign government bonds	-	2	-	2
Domestic corporate bonds(3)	-	21	-	21
Foreign corporate bonds	-	5	-	5
Common/collective trusts(4)	-	73	-	73
Other types of investments:				
Securities lending program(5)	-	(2)	-	(2)
Private equity funds(6) (stated at net asset value)	-	-	4	4
Total investment assets(7)	\$ 201	\$ 323	\$ 4	\$ 528

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.

(2) A passively managed broad market fund held in a SoCalGas PBOP plan trust.

(3) Investment-grade bonds of U.S. issuers from diverse industries.

(4) Investment in common/collective trusts held in a PBOP plan trust.

(5) An obligation to return collateral in excess of assets held under a securities lending agreement, allocated to each of the plans that hold assets in the pension master trust. Some of the collateral held in asset-backed securities is impaired.

(6) Investments in venture capital and real estate funds.

(7) Excludes cash balance of \$34 million, \$30 million of which is held in a SoCalGas PBOP plan trust.

The investments of the pension master trust allocated to the postretirement benefit plans classified as Level 3 are private equity funds and represent a percentage of each plan's total allocated assets as follows:

<i>(Dollars in millions)</i>	Private Equity Funds		
	SDG&E	SoCalGas	Total
Total Level 3 investment assets	\$ 1	\$ 4	\$ 5
Percentage of total investment assets	1%	1%	1%

There were no changes in the fair value of these investments in 2009.

Securities Lending

The pension master trust participates in securities lending programs through agents that are managed by external investment advisors. Under these programs, the Sempra Energy pension trust requires collateral in the form of cash equal to 102 percent and 105 percent of the fair value of the loaned domestic and foreign securities, respectively. The trust maintains effective control of the loaned investments during the terms of the agreement, in that they may recall the securities loaned at any time prior to the maturity of the agreement. Upon maturity of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. The risks of securities lending programs include collateral reinvestment risk, trade settlement risk, borrower default and operational negligence. All agents engaged through the securities lending programs provide indemnification against trade settlement risk and operational negligence. Additionally, the agent of the separately managed account provides indemnification against borrower defaults. Under the securities lending program, cash collateral received may be invested in various funds, managed by the external agents, in a manner that generally seeks to preserve principal, and to provide liquidity and current income. The collateral received on the Sempra Energy pension trust's securities loaned in the separately managed account that was reinvested, the fair values of such investments and the resulting unrealized losses as of December 31, 2009 and 2008 are as follows:

SECURITIES LENDING
(Dollars in millions)

Pension Benefits			Other Postretirement Benefits		
Fair Value of			Fair Value of		
Collateral Received	Invested Collateral	Unrealized Loss	Collateral Received	Invested Collateral	Unrealized Loss

2009												
SDG&E	\$	88	\$	83	\$	(5)	\$	6	\$	6	\$	-
SoCalGas		191		180		(11)		38		36		(2)
Other Sempra Energy		25		25		-		2		1		(1)
Total	\$	304	\$	288	\$	(16)	\$	46	\$	43	\$	(3)
2008												
SDG&E	\$	157	\$	146	\$	(11)	\$	9	\$	8	\$	(1)
SoCalGas		360		334		(26)		76		70		(6)
Other Sempra Energy		41		38		(3)		3		3		-
Total	\$	558	\$	518	\$	(40)	\$	88	\$	81	\$	(7)

Collateral received was reinvested in a portfolio of investments, through an agent, mostly consisting of AAA-rated asset backed floating rate notes, and floating rate notes rated A2 or better at the time of purchase by Moody's Investor Service or A by S&P.

Derivative Financial Instruments

In accordance with the Company's pension investment guidelines, derivative financial instruments are used by the pension master trust's equity and fixed income portfolio investment managers. Futures and foreign currency exchange contracts are used primarily to rebalance the fixed income/equity allocation of the pension master trust's portfolio and to hedge all or a portion of the currency risk component of the foreign equity investments. Currency hedge positions are not permitted to exceed the level of underlying foreign security exposure in the pension master trust's related assets. Some of the fixed income investment managers are permitted to use certain specified types of derivative instruments as part of their respective strategies. These strategies include the use of futures and options as substitutes for certain types of fixed income securities. During 2009 and 2008, the pension master trust owned shares in funds that held futures contracts and foreign currency forward contracts. In 2009 and 2008, such funds in which the pension master trust owned shares were the S&P 1500 Index and the Foreign Equity Index managed by Barclay's Global Investors. As these futures contracts are not held directly by the pension master trust, they are not included in the following discussion.

At December 31, 2009 and 2008, the pension master trust did not directly hold any futures or currency forward contracts. As we discuss above, interest rate swaps are used directly, in conjunction with the securities lending program and indirectly, through an index fund in the pension master trust.

The asset allocations for our plans' assets at December 31, 2008, by asset category were as follows:

	Sempra Energy		
	Sempra Energy Consolidated Pension Master Trust	SDG&E Postretirement Health Plans	SoCalGas Other PBOP Plans
U.S. equity	42 %	28 %	61 %
Foreign equity	22	4	-
Fixed income	36	68	39
Total	100 %	100 %	100 %

Future Payments

We expect to contribute the following amounts to our pension and other postretirement benefit plans in 2010:

(Dollars in millions)	Sempra Energy		
	Sempra Energy Consolidated	SDG&E	SoCalGas
Pension plans	\$ 168	\$ 58	\$ 82
Other postretirement benefit plans	55	16	36

The following two tables show 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
2011	304	51	89	8	169	40
2012	301	54	84	9	167	41
2013	292	57	85	10	176	43
2014	299	60	86	11	177	46
2015-2019	1,408	353	397	67	848	265

The expected future Medicare Part D subsidy payments are as follows:

(Dollars in millions)	Sempra Energy		
	Sempra Energy Consolidated	SDG&E	SoCalGas

2010	\$	3	\$	-	\$	2
2011		3		-		2
2012		3		-		3
2013		3		-		3
2014		4		-		3
2015-2019		23		4		18

SAVINGS PLANS

Sempra Energy offers trustee savings plans to all 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 25 percent of their regular earnings 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.

Employer contributions are initially invested in Sempra Energy common stock, but the employee may transfer the contribution to other investments. Employee contributions are invested in Sempra Energy stock, mutual funds or institutional trusts (the same investments to which employees may direct the employer contributions), which the employee selects. In Sempra Energy plans, employee contributions may also be invested in guaranteed investment contracts. Employer contributions for the Sempra Energy and SoCalGas plans are partially funded by the ESOP referred to below.

Contributions to the savings plans were as follows:

<i>(Dollars in millions)</i>		2009		2008		2007
Sempra Energy Consolidated	\$	31	\$	32	\$	31
SDG&E		13		13		12
PE/SoCalGas		13		12		12

The market value of Sempra Energy common stock held by the savings plans was \$919 million and \$700 million at December 31, 2009 and 2008, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN

All contributions to the ESOP Trust (described in Note 6) are made by Sempra Energy; there are no contributions made by the participants. As Sempra Energy makes contributions, the ESOP debt service is paid and shares are released in proportion to the total expected debt service. We charge compensation expense and credit equity for the market value of the released shares. Dividends on unallocated shares are used to pay debt service and are applied against the liability. The shares held by the Trust are unallocated and consist of 0.9 million shares of Sempra Energy common stock with a fair value of \$49 million at December 31, 2009, and 1.2 million shares of Sempra Energy common stock with a fair value of \$50 million at December 31, 2008.

NOTE 10. 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 Sempra Utilities employees participate in Sempra Energy's share-based compensation plans as a component of their compensation package.

At December 31, 2009, 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.

§ *Restricted Stock*: Substantially all restricted stock awards vest at the end of four-year performance periods based on Sempra Energy's total return to shareholders relative to that of market indices. Vesting is subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control, 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.

§ *Restricted Stock Units*: Restricted stock unit awards vest 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, 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. Vesting is subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control, 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.

The Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals (the Plan) authorizes the issuance of up to 302,478 shares of Sempra Energy common stock. In connection with the acquisition of EnergySouth in October 2008, we adopted the Plan to utilize the shares remaining available for future awards under the 2008 Incentive Plan of EnergySouth, Inc. (the Prior Plan). All awards outstanding under the Prior Plan at the time of the acquisition were canceled, and the holders were paid the merger consideration in accordance with the terms of the merger agreement. The Plan provides for the grant of substantially the same types of share-based awards (other than incentive stock options) that are available under the Sempra Energy 2008 Long Term Incentive Plan.

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.

As of December 31, 2009, 5,421,920 shares were authorized and available for future grants of share-based awards. Company 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 - SEMPR ENERGY CONSOLIDATED

(Dollars in millions, except per share amounts)

	Years ended December 31,		
	2009	2008	2007
Share-based compensation expense, before income taxes	\$ 34	\$ 44	\$ 45
Income tax benefit	(13)	(17)	(17)
Share-based compensation expense, net of income taxes	\$ 21	\$ 27	\$ 28
Net share-based compensation expense, per common share			
Basic	\$ 0.09	\$ 0.11	\$ 0.11
Diluted	\$ 0.08	\$ 0.11	\$ 0.11

Sempra Energy's capitalized compensation cost was \$5 million in 2009, \$5 million in 2008 and \$3 million in 2007.

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 cost recorded by SDG&E and SoCalGas were as follows:

SHARE-BASED COMPENSATION EXPENSE - SDG&E AND SOCALGAS

(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
SDG&E			
Compensation expense	\$ 6	\$ 8	\$ 6
Capitalized compensation cost	3	3	2
SoCalGas			
Compensation expense	\$ 7	\$ 9	\$ 8
Capitalized compensation cost	2	2	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 issued in 2009 and 2008 on the contractual term of the option and expected employee exercise and post-termination behavior. We developed the average expected life for options issued in 2007 with the simplified approach in accordance with Securities and Exchange Commission guidance.

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. The weighted-average per-share fair values for options granted were \$5.29 in 2009, \$12.53 in 2008 and \$13.82 in 2007. To calculate these fair values, we used the Black-Scholes model with the following weighted-average assumptions:

	2009	2008	2007
Stock price volatility	18%	19%	21%
Risk-free rate of return	1.9%	3.6%	4.7%
Annual dividend yield	3.2%	2.0%	2.1%
Expected life	5.6 years	6.4 years	6.2 years

The following table shows a summary of the non-qualified stock options as of December 31, 2009 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, 2008	6,852,256	\$ 36.42			
Granted	918,200	\$ 43.87			
Exercised	(1,835,184)	\$ 25.46		\$ 45	
Forfeited/canceled	(17,925)	\$ 50.65			
Outstanding at December 31, 2009	5,917,347	\$ 40.93	5.3	\$ 94	
Vested or expected to vest, at December 31, 2009	5,871,335	\$ 40.85	5.3	\$ 94	
Exercisable at December 31, 2009	3,953,822	\$ 35.89	4.1	\$ 81	

The aggregate intrinsic value at December 31, 2009 is the total of the difference between Sempra Energy's closing stock price and the exercise price for all in-the-money options. The total fair value of shares vested in the last three years was

- § \$9 million in 2009
- § \$8 million in 2008
- § \$7 million in 2007

The \$5 million of total compensation cost related to nonvested stock options not yet recognized as of December 31, 2009 is expected to be recognized over a weighted-average period of 2.1 years.

We received cash from option exercises during 2009 totaling \$47 million. The realized tax benefits for the share-based payment award deductions, in addition to the \$13 million benefit shown above, totaled \$33 million for 2009.

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 Sempra Energy:

	2009	2008	2007
Risk-free rate of return	1.4%	3.1%	4.6%
Annual dividend yield	3.2%	2.3%	2.2%
Stock price volatility	25%	18%	19%

Restricted Stock Awards

We provide a summary of Sempra Energy's restricted stock awards as of December 31, 2009 and the activity during the year below.

RESTRICTED STOCK AWARDS		
	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2008	1,710,988	\$ 34.06
Granted	37,233	\$ 40.34
Vested	(885,814)	\$ 30.11
Forfeited	(4,000)	\$ 34.20
	<u>858,407</u>	
Nonvested at December 31, 2009	<u>858,407</u>	\$ 38.36
Vested or expected to vest, at December 31, 2009	851,958	\$ 38.37

The \$4 million of total compensation cost related to nonvested restricted stock awards not yet recognized as of December 31, 2009 is expected to be recognized over a weighted-average period of 1.2 years. The total fair value of shares vested in the last three years was

§ \$27 million in 2009

§ \$39 million in 2008

§ \$37 million in 2007

Restricted Stock Units

We provide a summary of Sempra Energy's restricted stock units as of December 31, 2009 and the activity during the year below.

RESTRICTED STOCK UNITS		
	Units	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2008	626,350	\$ 52.70
Granted	907,700	\$ 35.96
Forfeited	(11,400)	\$ 40.71
	<u>1,522,650</u>	
Nonvested at December 31, 2009(1)	<u>1,522,650</u>	\$ 43.03
Vested or expected to vest, at December 31, 2009	1,473,935	\$ 43.12

(1) Each unit represents the right to receive one share of our common stock if applicable performance conditions are satisfied. Up to an additional 50% of the shares represented by the units may be issued if Sempra Energy exceeds target performance conditions.

The \$21 million of total compensation cost related to nonvested restricted stock units not yet recognized as of December 31, 2009 is expected to be recognized over a weighted-average period of 2.6 years.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2009, we adopted SFAS 161 (ASC 815) as discussed in Note 2. The adoption had no impact on our consolidated financial statements, but requires additional disclosures, which we provide below.

Comparative disclosures for periods prior to the date of adoption are not required and we have not provided them.

We use derivative instruments primarily to manage exposures arising in the normal course of business. These exposures are commodity market risk and benchmark interest rate risk. 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 that could lead to declines in anticipated revenues or increases in anticipated expenses, or 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 Sempra 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 Statements of Consolidated Cash Flows.

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

HEDGE ACCOUNTING

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

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

ENERGY DERIVATIVES

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

§ The Sempra Utilities use natural gas energy derivatives, on their customers' behalf, with the objective of managing price risk and lowering natural gas costs. These derivatives include fixed price natural gas positions, options, and basis risk instruments and are 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 which 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 on the Consolidated Statements of Operations. We provide further discussion in Note 15.

§ Sempra Generation uses natural gas and electricity instruments to market and optimize the earnings of its power generation fleet. Gains and losses associated with these derivatives are recognized in Sempra Global and Parent Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Consolidated Statements of Operations.

§ Sempra LNG and Sempra Pipelines & Storage use natural gas derivatives to market and optimize the earnings of the liquefied natural gas business and Sempra Pipelines & Storage's natural gas storage and transportation assets. Sempra Pipelines & Storage also uses natural gas energy derivatives with the objective of managing price risk and lowering natural gas prices at its Mexican distribution operations. Sempra Pipelines & Storage's derivatives are either undesignated or are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Sempra LNG's derivatives are undesignated and their impact on earnings is recorded in Sempra Global and Parent Revenues on the Consolidated Statements of Operations. The impacts on earnings are recognized in Sempra Global and Parent Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Consolidated Statements of Operations.

From time to time, our various businesses, including the Sempra Utilities, may use other energy derivatives to hedge exposures such as the price of vehicle fuel. These derivatives are typically accounted for as cash flow hedges.

We summarize net commodity derivative volumes as of December 31, 2009 as follows:

Business Unit and Commodity	Volume
Sempra Utilities:	
SDG&E:	
Natural gas	44 million MMBtu (1)
Congestion revenue rights	18 million MWh (2)
SoCalGas - natural gas	1 million MMBtu

Sempra Global:

Sempra LNG - natural gas	8 million MMBtu
Sempra Generation - electric power	1 million MWh

(1) Million British thermal units (of natural gas)

(2) Megawatt hours

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

INTEREST RATE DERIVATIVES

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

Interest rate derivatives are utilized by the Sempra Utilities as well as by other Sempra Energy subsidiaries. Although the Sempra 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 Sempra Utilities, as at the rest of Sempra Energy's subsidiaries.

The net notional amounts of our interest-rate derivatives as of December 31, 2009 and December 31, 2008 were:

<i>(Dollars in millions)</i>	December 31, 2009		December 31, 2008	
	Notional Debt	Maturities	Notional Debt	Maturities
Sempra Energy Consolidated(1)	\$ 75-355	2010-2019	\$ 65-355	2009-2019
SDG&E(1)	285-375	2019	285-515	2009-2019
SoCalGas	150	2011	150	2011

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

FINANCIAL STATEMENT PRESENTATION

The following table provides the fair values of derivative instruments, without consideration of margin deposits held or posted, on the Consolidated Balance Sheets as of December 31, 2009:

DERIVATIVE INSTRUMENTS ON THE CONSOLIDATED BALANCE SHEETS				
<i>(Dollars in millions)</i>				
December 31, 2009				
Derivatives designated as hedging instruments	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Interest rate instruments	\$ 12	\$ 2	\$ -	\$ -
Commodity contracts not subject to rate recovery	1	-	-	-
Total	\$ 13	\$ 2	\$ -	\$ -
SoCalGas:				
Interest rate instruments	\$ 6	\$ 2	\$ -	\$ -
Derivatives not designated as hedging instruments				
Sempra Energy Consolidated:				
Interest rate instruments(3)	\$ 9	\$ 15	\$ (25)	\$ (33)
Commodity contracts not subject to rate recovery	74	30	(64)	(42)
Associated offsetting commodity contracts	(34)	(6)	34	6
Commodity contracts subject to rate recovery	20	7	(20)	(13)
Associated offsetting commodity contracts	(14)	(9)	14	9
Total	\$ 55	\$ 37	\$ (61)	\$ (73)
SDG&E:				
Interest rate instruments(3)	\$ -	\$ -	\$ (17)	\$ (26)
Commodity contracts subject to rate recovery	18	7	(13)	(9)
Associated offsetting commodity contracts	(13)	(9)	13	9
Total	\$ 5	\$ (2)	\$ (17)	\$ (26)
SoCalGas:				
Commodity contracts subject to rate recovery	\$ 2	\$ -	\$ (1)	\$ -
Associated offsetting commodity contracts	(1)	-	1	-
Total	\$ 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 for the year ended December 31, 2009 were:

FAIR VALUE HEDGE IMPACT ON THE CONSOLIDATED STATEMENTS OF OPERATIONS		
<i>(Dollars in millions)</i>		
	Year ended December 31, 2009	
	Gain (loss) on derivative recognized in earnings	
	Location	Amount
Sempra Energy Consolidated:		
Interest rate instruments	Interest Expense	\$ 19
Interest rate instruments	Other Income (Expense), Net	(11)
Total		\$ 8
SoCalGas:		
Interest rate instrument	Interest Expense	\$ 6
Interest rate instrument	Other Income (Expense), Net	(2)
Total		\$ 4

CASH FLOW HEDGE IMPACT ON THE CONSOLIDATED STATEMENTS OF OPERATIONS			
<i>(Dollars in millions)</i>			
	Year ended December 31, 2009		
	Amount of pretax gain (loss) on derivative recognized in OCI (effective portion)	Gain (loss) reclassified from AOCI into earnings (effective portion)	
		Location	Amount
Sempra Energy Consolidated:			
Interest rate instruments	\$ -	Interest Expense	\$ (2)
Interest rate instruments	13	Other Income, Net(1)	3
Commodity contracts not subject to rate recovery	17	Revenues: Sempra Global and Parent	22
Commodity contracts not subject to rate recovery	-	Cost of Natural Gas, Electric Fuel and Purchased Power	(16)
Commodity contracts not subject to rate recovery	1	Operation and Maintenance	2
Commodity contracts not subject to rate recovery	37	Equity Earnings: RBS Sempra Commodities LLP	7
Total	\$ 68		\$ 16
SDG&E:			
Interest rate instruments	\$ -	Interest Expense	\$ 3
Commodity contracts not subject to rate recovery	-	Operation and Maintenance	1
Total	\$ -		\$ 4
SoCalGas:			
Interest rate instrument	\$ -	Interest Expense	\$ (4)
Commodity contracts not subject to rate recovery	1	Operation and Maintenance	1
Total	\$ 1		\$ (3)

(1) Gains reclassified into earnings due to changes in timing of forecasted interest payments.

In the third quarter of 2005, Sempra Energy entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of \$450 million for facilities related to Sempra LNG's Energía Costa Azul project. The swaps expire in 2027. During the second quarter of 2007, we revised our borrowing plans in anticipation of receiving net cash proceeds in connection with the sale of the commodities-marketing businesses. Accordingly, as of June 30, 2007, we reclassified the cash flow hedge gain of \$30 million pretax from Accumulated Other Comprehensive Income (Loss) to Other Income (Expense), Net in the Consolidated Statements of Operations. In August 2007, we entered into interest rate swaps with a collective notional value of \$450 million to economically offset the original swap instruments.

Sempra Energy expects that gains of \$12 million, which are net of income tax expense, that are currently recorded in Accumulated Other Comprehensive Income (Loss) 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 to earnings depend on the commodity prices and interest rates in effect when derivative contracts that are currently outstanding mature. For all forecasted transactions, the maximum term over which we are hedging exposures to the variability of cash flows, excluding interest payments, is 30 months at December 31, 2009. The maximum term over which RBS Sempra Commodities hedges forecasted natural gas purchases and sales is six years.

SDG&E and SoCalGas expect that losses of \$1 million and \$3 million, respectively, which are net of income tax benefit, that are currently recorded in Accumulated Other Comprehensive Income (Loss) related to these cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings.

HEDGE INEFFECTIVENESS

We recorded negligible hedge ineffectiveness in 2009. Following is a summary of the hedge ineffectiveness gains (losses) in 2008 and 2007 for Sempra Energy. Information related to the Sempra Utilities is noted separately within the table:

<i>(Dollars in millions)</i>	Years ended December 31,	
	2008	2007
Commodity hedges(1):		
Cash flow hedges	\$ (3)	\$ 3
Fair value hedges	(9)	29
Time value exclusions from hedge assessment	-	192
Total unrealized gains (losses)	(12)	224
Interest rate hedges(2):		
Cash flow hedges held by SDG&E(3)	(1)	(3)
Total unrealized losses	(1)	(3)
Total ineffectiveness gains (losses)	\$ (13)	\$ 221

(1) For commodity derivative instruments, we record ineffectiveness gains (losses) in Revenues from Sempra Global and Parent on the Consolidated Statements of Operations.

(2) For interest rate swap instruments, all companies record ineffectiveness gains (losses) in Other Income (Expense), Net on the Consolidated Statements of Operations.

(3) These losses include \$(1) million in 2008 and a negligible amount in 2007 associated with Otay Mesa VIE.

For commodity derivative instruments designated as fair value hedges,
§ the ineffectiveness gains relate to hedges of commodity inventory and include gains that represent the time value of money, which is excluded for hedge assessment purposes.

For commodity derivative instruments designated as cash flow hedges,
§ the ineffectiveness amounts relate to hedges of natural gas purchases and sales related to transportation and storage capacity arrangements.

These commodity derivative instruments were held by our commodities-marketing businesses.

The effects of derivative instruments not designated as hedging instruments on the Consolidated Statements of Operations for the year ended December 31, 2009 were:

UNDESIGNATED DERIVATIVE IMPACT ON THE CONSOLIDATED STATEMENTS OF OPERATIONS			
<i>(Dollars in millions)</i>			
		Gain (loss) on derivative recognized in earnings	
		Location	Year ended December 31, 2009
Sempra Energy Consolidated:			
Interest rate instruments(1)	Other Income (Expense), Net	\$	30
Commodity contracts not subject to rate recovery	Revenues: Sempra Global and Parent		47
Commodity contracts not subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power		(39)
Commodity contracts subject to rate recovery	Cost of Natural Gas		(5)
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power		(54)
Commodity contracts subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power		(5)
Total		\$	(26)
SDG&E:			
Interest rate instruments(1)	Other Income (Expense), Net	\$	27
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power		(54)
Total		\$	(27)
SoCalGas:			
Commodity contracts subject to rate recovery	Cost of Natural Gas	\$	(5)

(1) 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 rating. Generally, these provisions, if applicable, may reduce our credit limit if a specified credit rating agency reduces our rating. In certain cases, if our credit rating 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, 2009 is \$4 million. As of December 31, 2009, if the credit rating of Sempra Energy were reduced below investment grade, \$4 million of additional assets could be required to be posted as collateral for these derivative contracts.

For Sempra Energy, SDG&E, PE 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 contract. Such additional assurance, if needed, is not material and is not included in the amounts above.

NOTE 12. FAIR VALUE MEASUREMENTS

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. The following table provides the carrying amounts and fair values of the remaining financial instruments at December 31:

FAIR VALUE OF FINANCIAL INSTRUMENTS					
<i>(Dollars in millions)</i>					
		2009		2008	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Sempra Energy Consolidated:					
Investments in affordable housing partnerships(1)	\$	34	\$ 59	\$ 43	\$ 63
Total long-term debt(2)		8,050	8,618	6,962	7,013
Due to unconsolidated affiliates		2	2	102	101

Preferred stock of subsidiaries	179	156	179	149
SDG&E:				
Total long-term debt(3)	\$ 2,672	\$ 2,828	\$ 2,146	\$ 2,073
Contingently redeemable preferred stock	79	76	79	71
PE and SoCalGas:				
Total long-term debt(4)	\$ 1,296	\$ 1,382	\$ 1,372	\$ 1,333
PE:				
Preferred stock	\$ 80	\$ 61	\$ 80	\$ 59
Preferred stock of subsidiary	20	19	20	19
	\$ 100	\$ 80	\$ 100	\$ 78
SoCalGas:				
Preferred stock	\$ 22	\$ 20	\$ 22	\$ 20

(1) We discuss our investments in affordable housing partnerships in Note 4.

(2) Before reductions for unamortized discount of \$17 million at December 31, 2009 and \$8 million at December 31, 2008.

(3) Before reductions for unamortized discount of \$4 million at December 31, 2009 and \$2 million at December 31, 2008.

(4) Before reductions for unamortized discount of \$2 million at December 31, 2009 and \$2 million at December 31, 2008.

Sempra Energy based the fair values of investments in affordable housing partnerships on the present value of estimated future cash flows, discounted at rates available for similar investments. Sempra Energy estimated the fair values of debt incurred to acquire affordable housing partnerships based on the present value of the future cash flows, discounted at rates available for similar notes with comparable maturities.

All entities based the fair values of the long-term debt and preferred stock on their quoted market prices or quoted market prices for similar securities.

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 as of December 31, 2009 and 2008:

<i>(Dollars in millions)</i>	December 31,	
	2009	2008
Sempra Energy Consolidated	\$ 36	\$ 28
SDG&E	30	21
SoCalGas	5	7

Fair Value Hierarchy

We discuss the valuation techniques we use to measure fair value and the definition of the three levels of the fair value hierarchy in Note 1 under "Fair Value Measurements" and in Note 2 under "FSP FAS 157-4."

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, 2009 and 2008. 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 determined in accordance with our netting policy, as discussed above under "Derivative Positions Net of Cash Collateral."

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

Our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 and 2008 in the tables below include the following:

- § Nuclear decommissioning trusts reflect the assets of SDG&E's nuclear decommissioning trusts, excluding cash balances, as we discuss in Note 7. The trust assets are valued by a third party trustee. The trustee obtains prices from pricing services that are derived from observable data. We monitor the prices supplied by pricing services by validating pricing with other sources of data.
- § Investments include marketable securities and are primarily priced based on observable interest rates for similar instruments actively trading in the marketplace.
- § Commodity and other derivative positions, which include other interest rate management instruments, are entered into primarily as a means to manage price exposures. We use market participant assumptions to price these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable.

In the third quarter of 2007, the California Independent System Operator (ISO) began the process of allocating CRRs to load serving entities, including SDG&E. These instruments are included with commodity derivatives and are recorded at fair value based on the most current annual auction prices published by the California ISO. Prior to the ISO auction conducted in November 2008, the CRRs were priced based on discounted cash flows. They are classified as Level 3 and reflected in the Sempra Energy and SDG&E tables below. Changes in the fair value of CRRs are deferred and recorded in regulatory accounts to the extent they are recoverable or refundable through rates.

RECURRING FAIR VALUE MEASURES -- SEMPR ENERGY CONSOLIDATED*(Dollars in millions)*

At fair value as of December 31, 2009

	Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:					
Nuclear decommissioning trusts(1)	\$ 532	\$ 137	\$ -	\$ -	\$ 669
Investments	1	-	-	-	1
Commodity derivatives	39	65	10	(40)	74
Other derivatives	-	38	-	-	38
Total	\$ 572	\$ 240	\$ 10	\$ (40)	\$ 782
Liabilities:					
Commodity derivatives	\$ 9	\$ 74	\$ -	\$ (9)	\$ 74
Other derivatives	-	59	-	-	59
Total	\$ 9	\$ 133	\$ -	\$ (9)	\$ 133

At fair value as of December 31, 2008

	Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:					
Nuclear decommissioning trusts(1)	\$ 421	\$ 148	\$ -	\$ -	\$ 569
Short-term investments(2)	1	176	-	-	177
Commodity derivatives	55	76	27	(38)	120
Other derivatives	-	76	-	-	76
Total	\$ 477	\$ 476	\$ 27	\$ (38)	\$ 942
Liabilities:					
Commodity derivatives	\$ 63	\$ 110	\$ -	\$ (63)	\$ 110
Other derivatives	-	130	-	-	130
Total	\$ 63	\$ 240	\$ -	\$ (63)	\$ 240

(1) Excludes cash balances.

(2) Level 2 amounts are industrial development bonds discussed in Note 6.

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

		At fair value as of December 31, 2009				
		Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:						
Nuclear decommissioning trusts(1)	\$	532	\$ 137	\$ -	\$ -	\$ 669
Commodity derivatives		30	2	10	-	42
Total	\$	562	\$ 139	\$ 10	\$ -	\$ 711
Liabilities:						
Commodity derivatives	\$	9	\$ -	\$ -	\$ (9)	\$ -
Other derivatives		-	43	-	-	43
Total	\$	9	\$ 43	\$ -	\$ (9)	\$ 43

		At fair value as of December 31, 2008				
		Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:						
Nuclear decommissioning trusts(1)	\$	421	\$ 148	\$ -	\$ -	\$ 569
Commodity derivatives		21	-	27	-	48
Short-term investments(2)		-	24	-	-	24
Total	\$	442	\$ 172	\$ 27	\$ -	\$ 641
Liabilities:						
Commodity derivatives	\$	52	\$ 24	\$ -	\$ (52)	\$ 24
Other derivatives		-	88	-	-	88
Total	\$	52	\$ 112	\$ -	\$ (52)	\$ 112

(1) Excludes cash balances.

(2) Level 2 amounts are industrial development bonds discussed in Note 6.

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

		At fair value as of December 31, 2009				
		Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:						
Commodity derivatives	\$	6	\$ 1	\$ -	\$ -	\$ 7
Other derivatives		-	8	-	-	8
Total	\$	6	\$ 9	\$ -	\$ -	\$ 15
At fair value as of December 31, 2008						
		Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:						
Commodity derivatives	\$	8	\$ 3	\$ -	\$ -	\$ 11
Other derivatives		-	10	-	-	10
Total	\$	8	\$ 13	\$ -	\$ -	\$ 21
Liabilities:						
Commodity derivatives	\$	11	\$ -	\$ -	\$ (11)	\$ -

Level 3 Information

The following table sets forth reconciliations of changes in the fair value of net trading and other derivatives classified as Level 3 in the fair value hierarchy:

LEVEL 3 RECONCILIATIONS						
<i>(Dollars in millions)</i>						
	Sempra Energy Consolidated			SDG&E		
	Years ended December 31,			Years ended December 31,		
	2009	2008	2007	2009	2008	2007
Balance as of January 1	\$ 27	\$ 401	\$ 519	\$ 27	\$ 7	\$ -
Realized and unrealized gains (losses)	(31)	(79)	(272)	(31)	3	-
Allocated transmission instruments	15	17	-	15	17	7
Purchases and issuances	-	24	154	-	-	-
Settlements	(1)	-	-	(1)	-	-
Sale of the commodities-marketing businesses	-	(336)	-	-	-	-
Balance as of December 31	\$ 10	\$ 27	\$ 401	\$ 10	\$ 27	\$ 7
Change in unrealized gains or losses relating to instruments still held at December 31	\$ (16)	\$ 27	\$ 75	\$ (16)	\$ 27	\$ 7

Transfers in and/or out of Level 3 represent existing assets or liabilities that were either:

- § previously categorized as a higher level for which the inputs to the model became unobservable; or
- § assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period.

There were no transfers in or out of Level 3 during the periods presented.

Gains and losses (realized and unrealized) for Level 3 recurring items are primarily related to the commodities-marketing businesses and were included in Revenues for Sempra Global and Parent on the Consolidated Statements of Operations for the three months ended March 31, 2008 and the year ended December 31, 2007. With the sale of these businesses on April 1, 2008, Level 3 recurring activity was substantially reduced.

Gains and losses (realized and unrealized) for SDG&E's Level 3 recurring items are primarily related to congestion revenue rights and were included in Cost of Electric Fuel and Purchased Power on the Consolidated Statements of Operations for the years ended December 31, 2009 and 2008 and the second half of 2007.

NOTE 13. PREFERRED STOCK

The table below shows the details of preferred stock for SDG&E, PE and SoCalGas.

PREFERRED STOCK				
	Call/ Redemption Price	December 31,		
		2009	2008	
<i>(in millions)</i>				
Contingently redeemable:				
SDG&E:				
\$20 par value, authorized 1,375,000 shares:				
5% Series, 375,000 shares outstanding	\$ 24.00	\$ 8	\$ 8	
4.5% Series, 300,000 shares outstanding	\$ 21.20	6	6	
4.4% Series, 325,000 shares outstanding	\$ 21.00	7	7	
4.6% Series, 373,770 shares outstanding	\$ 20.25	7	7	
Without par value:				
\$1.70 Series, 1,400,000 shares outstanding	\$ 25.595	35	35	
\$1.82 Series, 640,000 shares outstanding	\$ 26.00	16	16	
SDG&E - Total contingently redeemable preferred stock		79	79	
Sempra Energy - total preferred stock of subsidiary, contingently redeemable		\$ 79	\$ 79	
PE:				
Without par value, authorized 15,000,000 shares:				
\$4.75 Dividend, 200,000 shares outstanding	\$ 100.00	\$ 20	\$ 20	
\$4.50 Dividend, 300,000 shares outstanding	\$ 100.00	30	30	
\$4.40 Dividend, 100,000 shares outstanding	\$ 101.50	10	10	
\$4.36 Dividend, 200,000 shares outstanding	\$ 101.00	20	20	
\$4.75 Dividend, 253 shares outstanding	\$ 101.00	-	-	
Total preferred stock of PE		80	80	

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
Total preferred stock of SoCalGas	<u>22</u>	<u>22</u>
Less: 50,970 shares of the 6% Series outstanding owned by PE	(2)	(2)
PE - total preferred stock of subsidiary	<u>20</u>	<u>20</u>
 Sempra Energy - total preferred stock of subsidiaries	 \$ 100	 \$ 100

Following are the attributes of each company's preferred stock. No amounts currently outstanding are subject to mandatory redemption.

SDG&E

- § All outstanding series are callable.
- § The \$20 par value preferred stock has two votes per share on matters being voted upon by shareholders of SDG&E and a liquidation preference at par plus any unpaid dividends.
- § All outstanding series of SDG&E's preferred stock have cumulative preferences as to dividends.
- § The no-par-value preferred stock is nonvoting and has a liquidation preference of \$25 per share plus any unpaid dividends.
- § SDG&E is authorized to issue 10 million shares of no-par-value preferred stock (both subject to and not subject to mandatory redemption).

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 Series Preference Stock is in addition to the Cumulative Preferred Stock, Preference Stock (Cumulative) and Common Stock that SDG&E was otherwise authorized to issue, and when issued would rank junior to the Cumulative Preferred Stock and Preference Stock (Cumulative). The stock's rights, preferences and privileges would be established by the board of directors at the time of issuance.

SDG&E's outstanding preferred securities are classified as contingently redeemable because they contain a contingent redemption feature that allows the holder to elect a majority of SDG&E's board of directors if dividends are not paid for eight consecutive quarters, and such a redemption triggering event is not solely within the control of SDG&E. They are therefore presented separate from and outside of equity in a manner consistent with temporary equity. We provide additional information concerning these securities in Note 2.

PACIFIC ENTERPRISES

- § Outstanding PE preferred stock is subject to redemption at PE's option at any time with at least 30 days' notice at the applicable redemption price for each series plus any unpaid dividends.
- § All outstanding series have one vote per share, cumulative preferences as to dividends, and liquidation preferences of \$100 per share plus any unpaid dividends.

PE currently is authorized to issue 10 million shares of series preferred stock, less currently outstanding shares, and 5 million shares of Class A series preferred stock, both without par value and with cumulative preferences as to dividends and liquidation value. Class A series preferred stock, when issued, would rank junior to other series of preferred stock. Other rights and privileges of the stock 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 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.

NOTE 14. SEMPRA ENERGY - SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

The following table provides the per share computations for income from continuing operations for the years ended December 31. Basic earnings per common share (EPS) is calculated by dividing earnings applicable 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

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

	Years ended December 31,		
	2009	2008(1)	2007(1)
Numerator:			
Income from continuing operations	\$ 1,122	\$ 1,068	\$ 1,118
Losses from continuing operations attributable to noncontrolling interests	7	55	17
Preferred dividends of subsidiaries	(10)	(10)	(10)
Income from continuing operations attributable to common shares	<u>\$ 1,119</u>	<u>\$ 1,113</u>	<u>\$ 1,125</u>
Denominator:			
Weighted-average common shares outstanding for basic EPS	243,339	247,387	259,269
Dilutive effect of stock options, restricted stock awards and restricted stock units	4,045	3,772	4,735
Weighted-average common shares outstanding for diluted EPS	247,384	251,159	264,004
Income from continuing operations attributable to common shares:			
Per common share, basic	\$ 4.60	\$ 4.50	\$ 4.34
Per common share, diluted	\$ 4.52	\$ 4.43	\$ 4.26

(1) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

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 and minus tax shortfalls are assumed to be used to repurchase shares on the open market at the average market price for the year. 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 year. We had 1,504,250; 1,496,500 and 55,800 such stock options outstanding during 2009, 2008 and 2007, respectively.

During 2007, we had 699,600 stock options outstanding that were antidilutive because of the unearned compensation and windfall tax benefits included in the assumed proceeds under the treasury stock method. There were no such antidilutive stock options outstanding during 2009 or 2008.

The dilution from unvested restricted stock awards and units is also based on the treasury stock method. Assumed proceeds equal to the unearned compensation and windfall tax benefits and minus tax shortfalls related to the awards are assumed to be used to repurchase shares on the open market at the average market price for the year. The windfall tax benefits or tax shortfalls are the difference between tax deductions we would receive upon the assumed vesting of restricted stock awards and units and the deferred income taxes we recorded related to the compensation expense on the restricted stock awards and units. We had 1,009 restricted stock awards and units outstanding that were antidilutive during 2008. There were no such anti-dilutive restricted stock awards or units in 2009 or 2007.

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.

Shares of common stock held by the ESOP were 868,173; 1,177,196 and 1,488,046 at December 31, 2009, 2008 and 2007, respectively. These shares are 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

	2009	2008	2007
Common shares outstanding, January 1	243,324,281	261,214,009	262,005,690
Savings plan issuance	1,021,023	-	268,178
Shares released from ESOP	309,023	310,850	195,720
Stock options exercised	1,835,184	683,858	1,245,696
Restricted stock issuances	37,233	4,002	803,706
Common stock investment plan(1)	381,167	1,508	95,499
Shares repurchased	(396,046)	(18,841,287)	(3,349,771)
Shares forfeited and other	(4,000)	(48,659)	(50,709)
Common shares outstanding, December 31	246,507,865	243,324,281	261,214,009

(1) Participants in the Direct Stock Purchase Plan may reinvest dividends to purchase newly issued shares.

Our board of directors has the discretion to determine the payment and amount of future dividends.

COMMON STOCK REPURCHASE PROGRAM

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 Collared Accelerated Share Acquisition Program under which we prepaid \$1 billion to repurchase shares of our common stock to be delivered later in 2008 in a share forward transaction. 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 \$1 billion purchase price was recorded as a reduction in shareholders' equity upon its prepayment. We received 18,416,241 shares under the program during 2008 based on a final weighted average price of \$54.30 per share.

This share repurchase program is unrelated to share-based compensation as described in Note 10.

NOTE 15. ELECTRIC INDUSTRY REGULATION**BACKGROUND**

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 Generation, 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. Effective in 2003, the IOUs resumed responsibility for electric commodity procurement above their allocated share of the DWR's long-term contracts.

POWER PROCUREMENT AND RESOURCE PLANNING

Effective in 2003, the CPUC:

- § directed the IOUs, including SDG&E, to resume electric commodity procurement to cover their net short energy requirements, which are the total customer energy requirements minus supply from resources owned, operated or contracted;
- § implemented legislation regarding procurement and renewable energy portfolio standards; and
- § established a process for review and approval of the utilities' long-term resource and procurement plans.

This process is intended to identify anticipated needs for generation and transmission resources in order to support transmission grid reliability and to better serve customers.

Sunrise Powerlink Electric Transmission Line

In December 2008, the CPUC issued a final decision authorizing SDG&E to construct a 500-kilovolt (kV) electric transmission line between the Imperial Valley and the San Diego region (Sunrise Powerlink). This line is designed to provide 1,000 MW of increased import capability into the San Diego area. The decision allows SDG&E to construct the Sunrise Powerlink along a route that would generally run south of the Anza-Borrego Desert State Park. The decision also approves the environmental impact review conducted jointly by the CPUC and the Bureau of Land Management (BLM) and establishes a total project cost cap of \$1.9 billion, including approximately \$190 million for environmental mitigation costs.

In January 2009, the BLM issued its decision approving the project, route and environmental review. Three community groups and an individual have filed a lawsuit in Federal District Court in Sacramento, California, for Declaratory and Injunctive Relief regarding Sunrise Powerlink. The complaint alleges that the BLM failed to properly assess the environmental impacts of the approved Sunrise Powerlink route and the related potential development of renewable resources in east San Diego County and Imperial County. The complaint requests a declaration that the BLM violated Federal law in approving Sunrise Powerlink and an injunction against any construction activities.

Sunrise Powerlink costs will be recovered in SDG&E's Electric Transmission Formula Rate, where SDG&E must demonstrate to the FERC that such costs were prudently incurred.

The CPUC decision requires SDG&E to adhere to certain commitments it made during the application process, as follows:

- § not to contract, for any length of term, with conventional coal generators to deliver power via the Sunrise Powerlink;
- § if any currently approved renewable energy contract that is deliverable via the Sunrise Powerlink fails, to replace it with a viable contract with a renewable generator located in the Imperial Valley; and
- § voluntarily raise SDG&E's RPS goal to 33 percent by 2020.

After the issuance of the CPUC final decision, applications for rehearing before the CPUC were filed by the Utility Consumers Action Network (UCAN) and the Center for Biological Diversity/Sierra Club (CBD). The CPUC issued a final decision in July 2009 denying the requests for rehearing. UCAN and CBD jointly filed a petition with the California Supreme Court in August 2009 challenging the CPUC's decision with regard to implementation of the California Environmental Quality Act (CEQA). UCAN also filed a petition with the California Court of Appeal (Court of Appeal) challenging the decision on other legal grounds. The CPUC, the ISO and SDG&E filed separate motions with the California Supreme Court requesting transfer of the UCAN petition to the California Supreme Court, which denied the transfer requests. Responses to the UCAN petition before the Court of Appeal were filed in January 2010. After a ruling by the Court of Appeal, the California Supreme Court will address the UCAN/CBD petition regarding CEQA.

Three appeals of the BLM decision approving the segment of the route in its jurisdiction were filed by individuals, a community organization, and the Viejas Indian tribe in March 2009. A request to stay the BLM's decision was also filed. The Interior Board of Land Appeals (IBLA) has dismissed the appeal filed by the individuals and issued a ruling in July 2009 denying the request for stay. In addition, the Viejas Indian tribe withdrew its appeal in July 2009. The IBLA is still reviewing the one remaining appeal.

The Sunrise Powerlink also requires approval from the United States Forest Service (USFS). SDG&E expects the USFS to issue a decision approving the segment of the route in its jurisdiction in the first quarter of 2010. The USFS decision is also subject to administrative and judicial review.

SDG&E commenced procurement activities for the project in 2009, but before construction can begin, additional agency permits must be obtained. The total amount invested by SDG&E in the Sunrise Powerlink project as of December 31, 2009 was \$235 million, which is included in Property, Plant and Equipment on the Consolidated Balance Sheets of Sempra Energy and SDG&E. SDG&E expects the Sunrise Powerlink to be in commercial operation in 2012.

Renewable Energy

Certain California electric retail sellers, including SDG&E, are required to deliver 20 percent of their retail demand from renewable energy sources beginning in 2010. The rules governing this requirement, administered by both the CPUC and the California Energy Commission (CEC), are generally known as the Renewables Portfolio Standard (RPS) Program. In September 2009, the Governor of California issued an Executive Order which requires California utilities by 2020 to procure 33 percent of their electric energy requirements from renewable energy sources. This Executive Order designates the California Air Resources Board (CARB) as the agency responsible for establishing the compliance rules and regulations.

In 2008, the CPUC issued a decision defining flexible compliance mechanisms that can be used to defer compliance with or meet the RPS Program mandates in 2010 and beyond. The decision established that a finding by the CPUC of insufficient transmission is a permissible reason to defer compliance with the RPS Program mandates. This decision also confirmed that any renewable energy procured in excess of the established targets, currently and in the future, could be applied to any shortfalls in the years 2010 and beyond.

SDG&E continues to aggressively secure renewable energy supplies to achieve the RPS Program goals. A substantial number of these supply contracts, however, are contingent upon many factors, including:

- § access to electric transmission infrastructure (including SDG&E's Sunrise Powerlink transmission line);
- § 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.

As previously noted, SDG&E expects the Sunrise Powerlink transmission line to be in operation in 2012. This would be too late to provide transmission capability to meet the RPS Program requirements for 2010 and 2011. However, SDG&E believes it will be able to comply with the RPS Program requirements based on its

contracting activity and application of the flexible compliance mechanisms. SDG&E's failure to comply with the RPS Program requirements in 2010, or in any subsequent years, could subject it to a CPUC-imposed penalty of 5 cents per kilowatt hour of renewable energy under-delivery up to a maximum penalty of \$25 million per year.

Miramar II Peaking Plant

Miramar II is a 48.6-MW natural gas-fired peaking plant in San Diego, located next to an existing SDG&E peaking plant. Built by SDG&E at a cost of approximately \$50 million, Miramar II began commercial operation in August 2009.

Solar Photovoltaic Program

In July 2008, SDG&E filed an application with the CPUC proposing to invest up to \$250 million to install solar photovoltaic panels in the San Diego area. These panels could generate approximately 50 MW of direct current power (approximately equivalent to 35 MW of power to the electric grid). In March 2009, SDG&E, UCAN and other interested parties submitted a settlement agreement which, if approved by the CPUC, would, among other provisions, reduce SDG&E's investment in the program to the lesser of \$125 million or 26 MW (direct current). A CPUC decision is expected in the first half of 2010. If approved, SDG&E expects to install its portion of the panels in phases from 2011 through 2015.

San Onofre Nuclear Generating Station (SONGS)

SONGS is jointly owned by Edison (78.21%), SDG&E (20%) and the city of Riverside (1.79%). In March 2009, as part of Edison's 2009 General Rate Case, the CPUC granted SDG&E's request for an approximate \$116 million base revenue requirement for 2009 (an approximate \$10 million increase from its 2008 base revenue) to recover costs for its 20-percent ownership in SONGS. The final decision also grants SDG&E's request for approximately \$13 million, a decrease of \$2.7 million, for its share of SONGS refueling outage expenses (per refueling outage) in 2009.

Edison is in the process of replacing the steam generators at SONGS. Project completion is expected in 2010 and 2011 for Units 2 and 3, respectively. Total estimated capital expenditure for the project, in 2004 dollars, is \$671 million, excluding AFUDC. SDG&E's current expected share is \$169 million, of which it has incurred \$95 million through December 31, 2009, and there are \$38 million of firm commitments at December 31, 2009. In 2006, the CPUC approved SDG&E's participation in the replacement project as well as providing SDG&E with full recovery of current operating and maintenance costs via balancing account treatment effective January 1, 2007.

Spent Nuclear Fuel

SONGS owners are responsible for interim storage of spent nuclear fuel generated at SONGS until the DOE accepts it for final disposal. Spent nuclear fuel has been stored in the SONGS Units 1, 2 and 3 spent fuel pools and in the ISFSI. Movement of all Unit 1 spent fuel to the ISFSI was completed in 2005.

§ Spent fuel for Unit 2 is being stored in both the Unit 2 spent fuel pool and the ISFSI.

§ Spent fuel for Unit 3 is being stored in both the Unit 3 spent fuel pool and the ISFSI.

A second ISFSI pad, completed in 2009, will provide sufficient storage capacity to allow for the continued operation of SONGS through 2022.

NOTE 16. OTHER REGULATORY MATTERS

GENERAL RATE CASE (GRC)

The CPUC uses a general rate case proceeding to prospectively set rates sufficient to allow the Sempra Utilities to recover their reasonable cost of operations and to provide the opportunity to realize an acceptable rate of return on their investment. The Sempra Utilities are scheduled to file their next rate case with the CPUC with a 2012 test year.

In November 2009, SDG&E and SoCalGas, jointly with the Division of Ratepayer Advocates (DRA), a division of the CPUC representing the interests of customers, filed petitions with the CPUC to delay the filing of SDG&E's and SoCalGas' next GRC applications by one year. If approved by the CPUC, both SDG&E and SoCalGas would file their next GRC application in late 2011 for test year 2013. The petitions propose methodologies to determine the 2012 revenue requirements for each company which would result in SDG&E and SoCalGas receiving an increase of no less than approximately \$45 million and \$55 million, respectively, in authorized margin, or three percent, above the 2011 authorized margin. The parties also agreed, among other things, to allow the Sempra Utilities to recover the increase, as deemed reasonable, in their annual excess liability insurance premiums in 2012, primarily due to the coverage for wildfire claims. In December 2009, The Utility Reform Network, UCAN and Aglet Consumer Alliance filed a joint response opposing the requested increase.

In February 2010, due to the lack of progress by the CPUC in responding to the joint request to delay the GRC filings by one year, SDG&E and SoCalGas filed with the CPUC to withdraw the request for delay. If the withdrawal requests are approved by the CPUC, SDG&E and SoCalGas will each file in the third quarter of 2010 a Notice of Intent to file a GRC with a 2012 test year.

UTILITY INCENTIVE MECHANISMS

The CPUC applies performance-based measures and incentive mechanisms to all California utilities. Under these, the Sempra 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. There are four general areas that operate under an incentive structure:

- § operational incentives
- § energy efficiency/demand side management
- § 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 2007-2009			
<i>(Dollars in millions)</i>			
	Years ended December 31,		
	2009	2008	2007
Sempra Energy Consolidated			
Natural gas procurement	\$ 7	\$ 12	\$ 12
Operational incentives	1	12	10
Energy efficiency and demand side management	2	28	12
Unbundled natural gas storage and hub services	19	15	26
Total awards	\$ 29	\$ 67	\$ 60
SDG&E			
Natural gas procurement	\$ -	\$ 3	\$ 2
Operational incentives	1	10	9
Energy efficiency and demand side management	-	23	12
Total awards	\$ 1	\$ 36	\$ 23
SoCalGas			
Natural gas procurement	\$ 7	\$ 9	\$ 10
Operational incentives	-	2	1
Energy efficiency and demand side management	2	5	-
Unbundled natural gas storage and hub services	19	15	26
Total awards	\$ 28	\$ 31	\$ 37

Operational Incentives

The CPUC has established operational incentive mechanisms that have been based on measurements of safety, reliability and customer satisfaction. The 2008 GRC proposed modified performance measures for customer satisfaction for both SDG&E and SoCalGas, and electric reliability for SDG&E. The Sempra Utilities filed responses in September 2008 rejecting the electric reliability and customer satisfaction measures. As a result, effective in 2008, the Sempra Utilities are no longer eligible for awards or subject to penalties for electric reliability and customer satisfaction.

The Sempra Utilities plan to submit their employee safety results and incentive awards claims in May 2010 for performance in 2009.

Energy Efficiency and Demand Side Management

The CPUC established incentive mechanisms that are based on the effectiveness of energy efficiency and demand side management programs. The CPUC-approved energy efficiency awards in 2008 were net of a holdback of 65 percent. In May 2009, SDG&E and SoCalGas filed a partial party settlement agreement regarding the appropriate method to determine incentive awards for the 2006 – 2008 program period. The settlement, if approved by the CPUC, would have resulted in 1) awards of \$10.7 million for SDG&E and \$12.5 million for SoCalGas; and 2) upon conclusion of the CPUC's assessment and audit process, awards of up to \$11.6 million for SDG&E and \$9.5 million for SoCalGas for the remaining holdback amounts. The CPUC issued a decision in December 2009 rejecting the settlement agreement and instead awarding \$0.3 million and \$2.1 million to SDG&E and SoCalGas, respectively. The decision held back 35 percent of the program incentive awards pending a final true-up in 2010. In the first quarter of 2010, the Sempra Utilities expect to file a petition for modification of the December 2009 decision to address errors identified in the decision.

In September 2009, the CPUC approved the Sempra Utilities' energy efficiency programs through 2012 and will use a similar annual review process to determine any utility incentive awards. The CPUC is also considering future enhancements to the overall incentive award process and mechanism, and a draft decision on possible changes will likely be issued in the first half of 2010.

Natural Gas Procurement

The Sempra Utilities procure natural gas on behalf of their core natural gas customers. The CPUC has established incentive mechanisms to allow the Sempra Utilities the opportunity to share in the savings and/or costs from buying natural gas for its core customers at prices below or above market-based monthly benchmarks. Beginning April 1, 2008, the SDG&E and SoCalGas core natural gas supply portfolios were combined, and SoCalGas now procures natural gas for SDG&E's core natural gas customers' requirements. All SDG&E assets associated with its core natural gas supply portfolio were transferred or assigned to SoCalGas. Accordingly, SDG&E's incentive mechanism for natural gas procurement awards or penalties ended as of the effective date of the combination of the core natural gas supply portfolios, and SoCalGas' gas cost incentive mechanism (GCIM) is applied on the combined portfolio basis going forward.

In January 2010, the CPUC approved a SoCalGas GCIM award of \$12 million for its procurement activities in the 12-month period ended March 31, 2009, which will be recorded in the first quarter of 2010.

Unbundled Natural Gas Storage and System Operator Hub Services

The CPUC has established a revenue sharing mechanism which provides for the sharing between ratepayers and SoCalGas of the net revenues generated by SoCalGas' unbundled natural gas storage and system operator hub

services. In 2008, the CPUC adopted an uncontested settlement agreement in Phase I of the Sempra Utilities' Biennial Cost Allocation Proceeding (BCAP) which, among other things, established that the annual net revenues (revenues less allocated service costs) be shared on a graduated basis, as follows:

- § the first \$15 million of net revenue to be shared 90 percent ratepayer/10 percent shareholders;
- § the next \$15 million of net revenue to be shared 75 percent ratepayer/25 percent shareholders;
- § all additional net revenues to be shared evenly between ratepayer and shareholders; and
- § the maximum total annual shareholder-allocated portion of the net revenues cannot exceed \$20 million.

COST OF CAPITAL

A cost of capital proceeding determines the Sempra Utilities' authorized capital structure and the authorized rate of return that the Sempra Utilities may earn on their electric and natural gas distribution and electric generation assets.

SoCalGas

SoCalGas' authorized return on equity (ROE) is 10.82 percent and its authorized return on rate base (ROR) is 8.68 percent. These rates continue to be effective until market interest rate changes are large enough to trigger an automatic adjustment or until the CPUC orders a periodic review. SoCalGas' current authorized capital structure is

- § 48.0 percent common equity
- § 6.4 percent preferred equity
- § 45.6 percent long-term debt

In July 2009, the CPUC denied SoCalGas' petition seeking to suspend its cost of capital Market Index Capital Adjustment Mechanism (MICAM). SoCalGas believes that the index used for the MICAM does not provide a strong correlation with utility risks and that further government actions to manage interest rates could increase the likelihood of triggering the MICAM in the future. Although the MICAM did not trigger in 2009, SoCalGas may eventually seek a change in the MICAM benchmarks to defer any resultant change in its cost of capital and propose a more indicative index associated with the natural gas distribution business.

SDG&E

SDG&E's authorized ROE is 11.10 percent and its authorized ROR is 8.40 percent. SDG&E's current authorized capital structure is

- § 49.00 percent common equity
- § 5.75 percent preferred equity
- § 45.25 percent long-term debt

In January 2010, the CPUC approved SDG&E's and the DRA's joint petition to delay SDG&E's next scheduled cost of capital application for two years. With this approval, SDG&E's next cost of capital application is scheduled to be filed in April 2012, consistent with the schedule for cost of capital applications for each of Edison and Pacific Gas and Electric (PG&E).

ADVANCED METERING INFRASTRUCTURE

SDG&E

In April 2007, the CPUC approved SDG&E's request to install advanced meters with integrated two-way communications functionality, including electric remote disconnect and home area network capability. SDG&E estimates expenditures for this project of \$572 million (including approximately \$500 million in capital investment). This project involves replacing approximately 1.4 million electric meters and 850,000 natural gas meters throughout SDG&E's service territory. SDG&E began mass installation of the advanced meters in March 2009, and is on schedule to complete the project by the end of 2011.

SoCalGas

In September 2008, SoCalGas filed an application with the CPUC for approval to upgrade approximately six million natural gas meters with an advanced metering infrastructure (AMI) at an estimated cost of \$1.1 billion (including approximately \$900 million in capital investment). The administrative law judge's (ALJ) preliminary decision and an assigned commissioner's alternate decision (AD) were both issued in February 2010. While the ALJ draft decision finds a gas-only AMI system is consistent with the state's energy policy goals and that the AMI system is technically feasible, the ALJ draft decision finds that the gas-only AMI system is not cost effective. The AD approves the project and finds that the proposal provides reasonable assurance that the project can be cost effective for ratepayers, provided that adequate safeguards are put in place. We expect a final CPUC decision in mid-2010. If approved, installation of the meters is expected to begin in 2012 and continue through 2017.

2007 WILDFIRES COST RECOVERY

SDG&E filed an application with the CPUC in March 2009 seeking to recover the incremental cost incurred to replace and repair company facilities under CPUC jurisdiction damaged by the October 2007 wildfires. This application was filed in accordance with the CPUC rules governing incremental costs incurred as a result of a declared emergency or catastrophic event. The DRA filed a protest to SDG&E's request for recovery of the incremental costs, requesting that the CPUC stay the proceeding until completion of the fire investigations, which we describe in Note 17. SDG&E and the DRA have reached an agreement in principle regarding the cost recovery request which, if approved by the CPUC, would result in SDG&E recovering \$43 million. A formal settlement agreement is being finalized, but no specific filing date has been established.

SDG&E also incurred \$30.1 million of incremental costs for the replacement and repair of company facilities under FERC jurisdiction, which are currently being recovered in SDG&E's electric transmission rates.

In regard to the 2007 wildfire litigation discussed in Note 17, if SDG&E's liability were to exceed the remaining amounts recoverable from its insurers, SDG&E will file with the FERC and the CPUC for recovery of the excess costs from utility customers. SDG&E is continuing to evaluate the likelihood, amount and timing of any such recoveries.

INSURANCE COST RECOVERY

SDG&E filed an application with the CPUC in August 2009 seeking authorization to recover higher liability insurance premium and deductible expenses which SDG&E began incurring on July 1, 2009. Evidentiary hearings are scheduled for April 2010 and a final CPUC decision is expected by the end of 2010. SDG&E made the filing under the CPUC's rules allowing utilities to seek recovery of significant cost increases resulting from unforeseen circumstances. SDG&E is requesting a \$29 million revenue requirement for the 2009/2010 policy period for the incremental increase in its liability and wildfire insurance premium costs above what is currently authorized in rates. The CPUC's rules allow a utility to recover costs that meet certain criteria, subject to a \$5 million deductible per event. Through December 31, 2009, SDG&E has expensed \$15 million (pretax) of incremental insurance premiums associated with this wildfire coverage.

FUTURE EXCESS CLAIMS COST RECOVERY

SDG&E and SoCalGas filed an application with the CPUC in August 2009 proposing a new mechanism for the full recovery of future wildfire-related claims, litigation and insurance premium expenses that are in excess of amounts authorized by the CPUC for recovery in rates. The filing was made jointly with Edison and PG&E. The utilities are asking the CPUC to approve their joint request by the second quarter of 2010. Several parties protested the request and a proceeding schedule has not yet been established.

GREENHOUSE GAS REGULATION

Legislation was enacted in 2006, including California Assembly Bill 32 (AB 32) and California Senate Bill 1368, mandating reductions in greenhouse gas emissions. The CARB is the lead agency in developing a plan to meet these requirements and is in the process of developing rules and market mechanisms that will be implemented on January 1, 2012. The CPUC and CEC are also in the process of making recommendations to the CARB regarding the rules that should apply for the electricity and natural gas sectors. The CARB's formal AB 32 Scoping Plan was adopted in December 2008.

The U.S. Environmental Protection Agency (EPA) has announced that it will complete a review of the national ambient air quality standards by the end of 2011 for ozone (nitrogen oxide and volatile organic chemicals), particulate matter, carbon monoxide, nitrogen dioxide, sulfur dioxide, and lead. This review could result in more stringent emissions limits on fossil-fired electric generating plants.

These legislative mandates could affect costs and growth at the Sempra Utilities and at Sempra Generation's power plants. Any cost impact at the Sempra Utilities is expected to be recoverable through rates. As discussed in Note 17 under "Environmental Issues," compliance with this and similar legislation could adversely affect Sempra Generation. However, such legislation could also have a positive impact on Sempra Generation because of an increasing preference for natural gas and renewables for electric generation, as opposed to other sources.

LEGAL PROCEEDINGS

We record loss reserves 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 reserved amounts or exceed applicable insurance coverages and could materially adversely affect our business, cash flows, results of operations, and financial condition.

At December 31, 2009, Sempra Energy's reserves for legal proceedings, on a consolidated basis, were \$465 million, of which \$270 million is offset by an insurance receivable for wildfire litigation and \$161 million is for previously resolved matters, as described further below. At December 31, 2009, SDG&E and SoCalGas had reserves of \$290 million (including the \$270 million offset) and \$11 million, respectively.

SDG&E 2007 Wildfire Litigation

In October 2007, San Diego County experienced several catastrophic wildfires. Reports issued by the California Department of Forestry and Fire Protection (Cal Fire) concluded that two of these fires (the Witch and Rice fires) were SDG&E "power line caused" and that a third fire (the Guejito fire) occurred when a wire securing a Cox Communications' 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 approximately 1,141 homes destroyed.

A September 2008 staff report issued by the CPUC's Consumer Protection and Safety Division reached substantially the same conclusions as the Cal Fire reports, but also contended that the power lines involved in the Witch and Rice fires and the lashing wire involved in the Guejito fire were not properly designed, constructed and maintained. In November 2008, the CPUC initiated proceedings to determine if any of its rules were violated and in October 2009, SDG&E and the Consumer Protection and Safety Division entered into a settlement agreement that, if approved by the CPUC, would resolve these proceedings by SDG&E's payment of \$14.75 million without any admission of responsibility for the wildfires.

Numerous plaintiffs 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. Plaintiffs include owners and insurers of properties that were destroyed or damaged in the fires and public entities seeking recovery of firefighting, emergency response, and environmental costs. Plaintiffs 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 damages resulting from a wildfire ignited by power lines. In June 2009, the trial court ruled that the plaintiffs' claims must be pursued in individual lawsuits (rather than as class actions on behalf of all persons who incurred wildfire damages), and the plaintiffs have appealed that ruling.

SDG&E has filed cross-complaints against Cox Communications seeking indemnification for any liability that SDG&E may incur that relates to the Guejito fire and may file additional actions against other parties relating to the Witch and Rice fires.

By early February 2010, SDG&E and homeowner insurers holding almost all of the insurer plaintiffs' 19,000 claims entered into settlement agreements resolving all of their claims relating to the three wildfires. These include claims for amounts paid or reserved for payment by the insurers to their policyholders for approximately 1,000 of the 1,300 houses, mobile homes, and apartment units identified in public records as having been destroyed by the three fires.

Under the settlement agreements, SDG&E has paid or will pay the settling insurers 57.5 percent of the approximately \$1.6 billion paid or reserved for payment by the insurers to their policyholders, and the settling insurers have assigned their claims against Cox Communications and other potentially responsible parties to SDG&E. In addition to the claims of homeowner insurers, the wildfire litigation also includes claims for damage to uninsured and underinsured structures, business interruption, evacuation expenses, agricultural damage, emotional harm, personal injuries and other losses. Of the approximately 2,500 remaining plaintiffs, primarily individuals and businesses, only approximately 500 have thus far submitted settlement demands. Individual and business demands total approximately \$430 million. In addition, government entities have submitted a total of approximately \$135 million in demands, and additional demands from these entities are expected.

After giving effect to the amounts paid and to be paid in connection with the homeowner insurer settlements, additional reserves and estimated defense costs, SDG&E's remaining insurance coverage for the wildfire liabilities is approximately \$20 million. SDG&E is continuing to gather information to evaluate and assess estimated liabilities related to the wildfires and establishes reserves as data for specific claims becomes available and probable damages are able to be estimated.

SDG&E does not at this time have sufficient information to reasonably estimate the costs of resolving the remaining unreserved wildfire claims. It is also unable to reasonably estimate the amount that it may recover from Cox Communications and other potentially responsible parties both in respect of the amounts it has already expended to settle claims and amounts that it may expend in the future.

However, before giving effect to any amounts that it may recover from Cox Communications and other potentially responsible parties, SDG&E expects that the aggregate costs that it may incur in resolving the remaining unreserved wildfire claims will substantially exceed its insurance coverage. If its liability for the three wildfires were to exceed the remaining insurance, SDG&E will file with the FERC and the CPUC to recover the excess amount from utility customers. SDG&E is continuing to evaluate the likelihood, amount and timing of any such recoveries.

If SDG&E were unable to conclude that recovery from utility customers is likely, either on a current basis or in the future, SDG&E's and therefore Sempra Energy's earnings would be materially adversely affected to the extent that it resolves wildfire claims or obtains sufficient information to establish reserves for amounts that exceed its remaining insurance, even though all or a portion of such amounts (including amounts already paid in settlements with homeowner insurers) may ultimately be recovered from Cox Communications and other potentially responsible parties or from utility customers in subsequent reporting periods. Cash flow would also be adversely affected by any delays in obtaining any such recoveries.

In light of the complexity of these matters and the large number of parties involved, the wildfire litigation, including any appeals, could take several years to be resolved.

DWR Contract

In February 2002, the California Energy Oversight Board (CEOB) and the CPUC filed challenges at the FERC to the DWR's contracts with Sempra Generation and other power suppliers. After the FERC upheld the contracts in 2003, the CEOB and CPUC appealed to the U.S. Court of Appeals for the Ninth Circuit (Ninth Circuit Court of Appeals) and challenged the FERC's application of the Mobile-Sierra doctrine's "public interest" standard of review to the contracts. In June 2008, the United States Supreme Court (Supreme Court) ruled that the FERC was correct to apply the Mobile-Sierra doctrine (which presumes that contract rates are just and reasonable) absent a demonstration that one of the contracting parties engaged in unlawful market manipulation that directly affected contract rates. The Supreme Court ruled that the FERC should clarify its findings on this issue and consider whether the contract rates seriously harm the public interest. The FERC has not yet acted.

At various times since the contract's inception, Sempra Generation and the DWR have also had disputes regarding the meaning of terms and performance of the agreement under which Sempra Generation sells electricity to the DWR. In 2002, in a state civil action, the DWR sought to terminate its contract with Sempra Generation claiming misrepresentation and breach of contract, and seeking rescission, damages, injunctive and declaratory relief, and \$100 million in punitive damages. After various procedural decisions and appeals, on November 30, 2009, a San Diego jury returned a verdict denying all of the DWR's claims and requested relief, and granting all of Sempra Generation's requested relief. The DWR has appealed the judgment.

In February 2006, the DWR began an additional arbitration against Sempra Generation related to the manner in which Sempra Generation schedules its Mexicali plant. The DWR sought \$100 million in damages and an order terminating the contract. Arbitration hearings were held in November 2008, and in January 2009, the arbitration panel issued a decision denying all of the DWR's claims. The panel decision was confirmed by the San Francisco Superior Court in May 2009.

In September 2008, the DWR initiated another arbitration proceeding against Sempra Generation, alleging that Sempra Generation had breached the parties' agreement in various operational respects, and violated the order issued by an earlier arbitration panel relating to the amount refunded to the DWR and the manner in which Sempra Generation operates. The DWR seeks approximately \$80 million in damages and an order terminating the contract. Arbitration hearings are scheduled for August 2010.

FERC Refund Proceedings

The FERC is investigating prices charged by various electric suppliers to buyers in the California Power Exchange (PX) and ISO markets. In March 2003, the FERC ordered suppliers to pay refunds on certain sales made during the October 2, 2000 through June 20, 2001 time period.

Various parties, including Sempra Commodities, appealed the FERC's order to the Ninth Circuit Court of Appeals. In August 2006, the Ninth Circuit Court of Appeals held that the FERC had properly established October 2, 2000 through June 20, 2001 as the refund period and had properly excluded certain short-term bilateral transactions between sellers and the DWR from the refund proceedings. However, the court also held that the FERC erred in excluding certain multi-day transactions from the refund proceedings. Finally, while the court upheld the FERC's decision not to extend the refund proceedings to the summer period (prior to October 2, 2000), it found that the FERC should have considered other remedies for tariff violations that are alleged to have occurred prior to October 2, 2000. The FERC is in the process of addressing these issues on remand.

In August 2007, the Ninth Circuit Court of Appeals issued a decision reversing and remanding FERC orders declining to provide refunds in a related proceeding regarding short-term bilateral sales up to one month in the Pacific Northwest. The court found that some of the short-term sales between the DWR and various sellers (including Sempra Commodities) that had previously been excluded from the refund proceeding involving sales

in the ISO and PX markets in California were within the scope of the Pacific Northwest refund proceeding. The FERC has not yet acted on the court's order.

In a separate complaint filed with the FERC in 2002, the California Attorney General contended that electricity sellers had failed to comply with the FERC's quarterly reporting requirements. The Attorney General requested that the FERC order refunds from suppliers. The FERC dismissed the complaint and instead ordered sellers to restate their reports. After an appeal by the California Attorney General, the Ninth Circuit Court of Appeals stated that failure to file transaction-specific quarterly reports gave the FERC authority to order refunds with respect to jurisdictional sellers. The FERC is in the process of addressing these issues on remand.

In May 2009, the California Attorney General filed another complaint at the FERC against various sellers, including Sempra Commodities. In this complaint, the Attorney General seeks to collect for alleged overcharges related to short-term bilateral transactions between sellers and the DWR from January 18, 2001 through June 20, 2001. These transactions also have been the subject of the Ninth Circuit Court of Appeals' orders in the proceedings described above. The FERC has not yet acted on the complaint.

In the cases described above, the FERC could order additional refunds or the disgorgement of profits. RBS Sempra Commodities has reserves for its estimate of the effect of the FERC's revision of the benchmark prices it will use to calculate refunds and other related developments. Pursuant to the agreements related to the formation of RBS Sempra Commodities, we have indemnified RBS related to these proceedings should the liability from the final resolution be greater than the reserves.

FERC Manipulation Investigation

The FERC has separately investigated whether there was manipulation of short-term energy markets in the western United States that would constitute violations of applicable tariffs and warrant disgorgement of associated profits.

In June 2003, the FERC ordered a number of entities, including Sempra Commodities, to show why they should not disgorge profits from certain transactions between January 1, 2000 and June 20, 2001 that are asserted to have constituted gaming and/or anomalous market behavior under the California ISO and/or PX tariffs. In October 2003, Sempra Commodities agreed to pay \$7.2 million in full resolution of these investigations. That liability was recorded as of December 31, 2003. The Sempra Commodities settlement was approved by the FERC in August 2004 and reaffirmed in November 2008. The California parties have appealed the FERC's orders to the Ninth Circuit Court of Appeals.

Other Litigation

Sempra Energy and several subsidiaries, along with three oil and natural gas companies, the City of Beverly Hills, and the Beverly Hills Unified School District, are defendants in a toxic tort lawsuit filed in Los Angeles County Superior Court by approximately 1,000 plaintiffs. This lawsuit claims that various emissions resulted in cancer or fear of cancer. We have submitted the case to our insurers, who have reserved their rights with respect to coverage. In November 2006, the court granted the defendants' summary judgment motions based on lack of medical causation for the 12 initial plaintiffs scheduled to go to trial first. The court also granted summary judgment excluding punitive damages. The court has stayed the case as to the remaining plaintiffs pending the appeal of the rulings.

RBS Sempra Commodities assumed litigation reserves related to Sempra Commodities, however, we have indemnified RBS should the liabilities from the final resolution of these matters be greater than the reserves.

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 cases.

Resolved Matters

The reserves for legal proceedings described above include amounts for resolved matters that are primarily related to certain litigation arising out of the 2000 – 2001 California energy crisis.

The following is a description of specific litigation settlements.

Continental Forge Settlement

At December 31, 2009, \$161 million of reserves at Sempra Energy relate to the Continental Forge class-action and individual antitrust and unfair competition lawsuits in California and Nevada, which alleged that Sempra Energy and the Sempra Utilities unlawfully sought to control natural gas and electricity markets. The detailed terms of these settlements were reported previously, and included cash payments, in annual installments, totaling \$377 million. As provided for under the terms of the agreement, in November 2009, we prepaid the remaining installments with a lump sum of \$119 million, including accrued interest and discounted at seven percent, which satisfied all cash payment obligations.

Additional consideration for the January 2006 California settlement includes an agreement that Sempra LNG would sell to the Sempra Utilities, subject to annual CPUC approval, regasified liquefied natural gas (LNG) from Sempra LNG's Energía Costa Azul facility for a period of 18 years beginning in 2011 at the California border index price minus \$0.02 per million British thermal units (MMBtu). Also, Sempra Generation voluntarily would reduce the price that it charges for power and limit the locations at which it would deliver power under its DWR contract.

Other Cases

Sempra Energy. As previously reported, in January 2009, we agreed to pay \$2 million to settle five cases pending in Nevada claiming that energy prices had been manipulated. The settlement amount was paid following court approval of the settlement in August 2009.

SoCalGas. As previously reported, in May 2009, SoCalGas settled for a nominal amount class action litigation relating to its retirement plans. The court approved the settlement in October 2009.

Wildfire Reserves and Insurance Receivables

Based on discussions with the homeowner insurers in the litigation that resulted in the settlements of their claims in the SDG&E wildfire litigation described above, SDG&E concluded in the first six months of 2009 that its exposure to the homeowner insurers was reasonably estimable and established a reserve of \$940 million that was recorded as a current liability in the Consolidated Balance Sheets and was fully offset by a current receivable of \$940 million payable from SDG&E's \$1.1 billion of liability insurance. In the fourth quarter of 2009, SDG&E recorded additional reserves and a corresponding receivable from its liability insurance for additional settlements with the homeowner insurers and reasonably estimable amounts related to the claims of other plaintiffs. There was no effect on SDG&E's or Sempra Energy's 2009 earnings from the recording of the reserves. In 2009, cash received from liability insurance (\$662 million), net of settlement payments (\$652 million), was \$10 million. Also, SDG&E's insurance paid \$150 million of claims directly to plaintiffs. After payments by SDG&E's liability insurers in 2009, remaining reserves at December 31, 2009 were \$270 million. The remaining receivable of \$273 million reflects timing differences between payments by SDG&E's liability insurers and settlement payments.

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 southwestern U.S., U.S. Rockies, Canadian and California suppliers 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 2025.

At December 31, 2009, the future minimum payments under existing natural gas contracts and natural gas storage and transportation contracts were:

Sempra Energy Consolidated

(Dollars in millions)

	Transportation	Natural Gas(1)	Total(1)
2010	\$ 123	\$ 1,039	\$ 1,162
2011	80	315	395
2012	46	7	53
2013	45	7	52
2014	35	6	41
Thereafter	176	-	176
Total minimum payments	\$ 505	\$ 1,374	\$ 1,879

(1) Excludes amounts related to Sempra LNG's contracts with Tangguh PSC and RasGas discussed below.

SoCalGas

<i>(Dollars in millions)</i>	Transportation	Natural Gas	Total
2010	\$ 123	\$ 1,003	\$ 1,126
2011	80	309	389
2012	46	3	49
2013	45	3	48
2014	35	3	38
Thereafter	176	-	176
Total minimum payments	\$ 505	\$ 1,321	\$ 1,826

Total payments under these natural gas contracts were:

<i>(Dollars in millions)</i>	Years ended December 31,		
	2009	2008	2007
Sempra Energy Consolidated	\$ 1,754	\$ 3,469	\$ 2,976
SDG&E	-	12	390
SoCalGas	1,452	3,145	2,413

LNG

Sempra LNG has a purchase agreement with Tangguh PSC Contractors (Tangguh PSC) for the supply of LNG equivalent to 500 million cubic feet of natural gas per day to be delivered from Tangguh PSC's Indonesian liquefaction facility to the Energía Costa Azul receipt terminal. The contracted deliveries under this 20-year agreement began in late 2009 and will use half of the capacity of Energía Costa Azul. The price of LNG under this contract is based on the Southern California border index.

Although the LNG purchase contract specifies a minimum number of cargoes to be delivered, under the terms of the contract, Tangguh PSC may divert certain cargoes to other customers, which would reduce amounts paid under the contract by Sempra LNG. As of December 31, 2009, if all cargoes under the contract were to be delivered, future payments under this contract would be

§ \$847 million in 2010

§ \$1.0 billion in 2011

§ \$1.0 billion in 2012

§ \$1.1 billion in 2013

§ \$1.1 billion in 2014

§ \$18.2 billion for the remainder of the contract term

The amounts above are based on forward prices of the Southern California border index price from 2010 to 2014, plus an estimated one percent escalation per year beyond 2014. Sempra LNG has a natural gas sales contract to sell a portion of the LNG purchased from Tangguh PSC to Mexico's national electric company, Comisión Federal de Electricidad (CFE) at prices that are based on the Southern California border index price. Sempra LNG also has a natural gas sales agreement with RBS Sempra Commodities for RBS Sempra Commodities to market any volumes purchased from Tangguh PSC that are not sold by Sempra LNG to the CFE.

Sempra LNG has a purchase agreement with Ras Laffan Liquefied Natural Gas Company Limited (RasGas) for the supply of LNG cargoes to be delivered by RasGas to Sempra LNG's Cameron LNG receipt terminal. Under this agreement, effective August 2009 through the end of 2010, RasGas has the option to deliver and sell up to 52 cargoes to Sempra LNG, at a price based on market prices in the U.S. Gulf of Mexico. As of December 31, 2009, RasGas may deliver up to 32 cargoes through 2010. If all cargoes were to be delivered, payments in 2010 for these cargoes would be approximately \$813 million.

PURCHASED-POWER CONTRACTS

For 2010, SDG&E expects to receive 25 percent of its customer power requirements from DWR allocations. The remaining requirements are expected to be met as follows

§ SONGS: 17 percent

§ Long-term contracts: 23 percent (of which 10 percent is provided by renewable energy contracts expiring on various dates through 2025)

§ Other SDG&E-owned generation (including Palomar) and tolling contracts (including OMEC and Orange Grove): 28 percent

§ Spot market purchases: 7 percent

The long-term contracts expire on various dates through 2035.

At December 31, 2009, the estimated future minimum payments under SDG&E's long-term purchased-power contracts (not including the DWR allocations) were:

(Dollars in millions)

2010	\$	335
2011		238
2012		238
2013		235
2014		194
Thereafter		1,425
Total minimum payments(1)	\$	2,665

(1) Excludes amounts related to Otay Mesa VIE and Orange Grove VIE as they are consolidated at SDG&E.

The payments 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 the contracts were:

§ \$413 million in 2009

§ \$393 million in 2008

§ \$351 million in 2007

OPERATING LEASES

Sempra Energy, SDG&E, PE and SoCalGas have operating leases on real and personal property expiring at various dates from 2010 to 2045. Certain leases on office facilities contain escalation clauses requiring annual increases in rent ranging from two percent to six percent at Sempra Energy, two percent to six percent at SDG&E, and two percent to five percent at both PE and 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 Sempra Utilities had an operating lease agreement for fleet vehicles with GE Capital that was terminated in November 2008, with remaining rental commitments to be paid by January 2011. In November 2008, to replace the prior agreement, the Sempra Utilities entered into an operating lease agreement for fleet vehicles with RBS Asset Finance, Inc. with an aggregate maximum lease limit of \$100 million.

Rent expense for all operating leases totaled:

<i>(Dollars in millions)</i>	Years ended December 31,		
	2009	2008	2007
Sempra Energy Consolidated	\$ 101	\$ 100	\$ 141
SDG&E	24	25	24
PE	65	65	68
SoCalGas	52	52	54

At December 31, 2009, 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	PE	SoCalGas
2010	\$ 88	\$ 20	\$ 50	\$ 43
2011	77	19	36	36
2012	46	17	6	6
2013	42	15	5	5
2014	41	14	4	4
Thereafter	360	58	12	12
Total future rental commitments	\$ 654	\$ 143	\$ 113	\$ 106

CAPITAL LEASES

During 2009, the Sempra Utilities entered into an agreement with U.S. Bancorp Asset Finance which provides leases for fleet vehicles that were not renewed under the agreement with GE Capital, which we discuss above. Under the agreement with U.S. Bancorp Asset Finance, the leases for fleet vehicles are capital leases.

Total capital lease payments were as follows:

<i>(Dollars in millions)</i>	Year ended December 31,	
	2009	
Sempra Energy Consolidated	\$	4
SDG&E		1
SoCalGas		3

There were no capital lease payments in 2008 or 2007.

At December 31, 2009, the minimum commitments payable in future years under all capital leases were as follows:

<i>(Dollars in millions)</i>	Sempra Energy		
	Consolidated	SDG&E	SoCalGas
2010	\$ 16	\$ 5	\$ 11
2011	12	5	7
2012	10	5	5
2013	5	3	2
2014	3	2	1
Thereafter	-	-	-
Total future rental commitments	\$ 46	\$ 20	\$ 26

CONSTRUCTION AND DEVELOPMENT PROJECTS

Sempra Energy has various capital projects in progress in the United States and in Mexico. The following is a summary of contractual commitments and contingencies related to the construction projects.

SDG&E

At December 31, 2009, SDG&E has commitments to make future payments of \$453 million for construction projects including:

§ \$219 million for implementation of the Advanced Metering Infrastructure Program;

§ \$166 million for the engineering, material procurement and construction costs associated with the Sunrise Powerlink project; and

§ \$49 million related to the replacement of the steam generators and other construction projects at SONGS.

SDG&E expects future payments under these contractual commitments to be \$355 million in 2010, \$81 million in 2011 and \$17 million in 2012.

SoCalGas

At December 31, 2009, SoCalGas has commitments to make future payments of \$48 million for construction and infrastructure improvements for natural gas transmission and distribution operations. The future payments under these contractual commitments are expected to be \$47 million in 2010 and \$1 million in 2011.

Sempra Pipelines & Storage

Sempra Pipelines & Storage has commitments for the construction of natural gas storage facilities at Bay Gas and Mississippi Hub. At December 31, 2009, Sempra Pipelines & Storage expects to make payments of \$16

million and \$30 million, respectively, in 2010 under these contracts.

Sempra Pipelines & Storage owns 75 percent of the partnership that is developing the Liberty Gas Storage facility located in Cameron Parish, Louisiana. The partnership is committed to construction agreements and expects to make payments of \$1 million in 2010 under these agreements.

GUARANTEES

Sempra Energy's guarantees related to RBS Sempra Commodities and Rockies Express are discussed in Note 6. As of December 31, 2009, SDG&E and SoCalGas did not have any outstanding guarantees.

SEMPRA GENERATION'S CONTRACT WITH THE DWR

In May 2001, Sempra Generation entered into a ten-year agreement with the DWR to supply up to 1,900 MW of power to California. Sempra Generation delivers energy to the DWR, primarily from its portfolio of natural gas-fired plants in the western United States and Baja California, Mexico. Additional information concerning this contract is provided under "Legal Proceedings - DWR Contract" above.

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.

OTHER

We discuss reserves at Sempra Energy and SDG&E for wildfire litigation above in "SDG&E Wildfire Litigation."

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 Generation. The Sempra 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 in order to comply with environmental laws and regulations:

	Years ended December 31,		
	2009	2008	2007
Sempra Energy Consolidated(1)	\$ 43	\$ 30	\$ 19
SDG&E	24	18	11
SoCalGas	17	9	6

(1) In cases of non-wholly owned affiliates, includes only our share.

Increases in 2009 compared to 2008 are primarily due to SoCalGas' spending on gas transmission projects, SDG&E's improvements to its electric transmission system and spending on emissions-control equipment. Increases in 2008 compared to 2007 are primarily due to SDG&E's spending related to the Sunrise Powerlink and the Miramar II peaking plant, and Sempra LNG's spending related to the Energía Costa Azul LNG receipt terminal. We have not identified any significant environmental issues outside the United States. From 2009 through 2013, SDG&E expects to incur costs of approximately \$190 million for environmental mitigation measures associated with the Sunrise Powerlink construction project.

At the Sempra 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 Sempra Utilities' manufactured-gas sites, 2) cleanup of third-party waste-disposal sites used by the Sempra Utilities at sites which have been identified as PRPs 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 a 150-acre artificial reef was completed in 2008. The table below shows the status at December 31, 2009, of the Sempra Utilities' manufactured-gas sites and the third-party waste-disposal sites identified as PRPs:

	# Sites Completed	# Sites In Process
SDG&E		
Manufactured-gas sites	3	-
Third-party waste-disposal sites	1	1
SoCalGas		
Manufactured-gas sites	35	7
Third-party waste-disposal sites	1	1

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, 2009:

	Manufactured Gas Sites	Waste Disposal Sites (PRP)(1)	Former Fossil-Fueled Power Plants	Other Hazardous Waste Sites	Total
SDG&E(2)	\$ 0.4	\$ 0.2	\$ 6.1	\$ 0.7	\$ 7.4
SoCalGas	26.4	0.5	-	1.0	27.9
Other	0.2	0.9	-	-	1.1
Total Sempra Energy	\$ 27.0	\$ 1.6	\$ 6.1	\$ 1.7	\$ 36.4

(1) Site for which we have been identified as a Potentially Responsible Party.

(2) Does not include SDG&E's liability for SONGS marine mitigation.

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. At December 31, 2009, 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 15 and greenhouse gas regulation in Note 16.

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 \$300 million in coverage limits, the maximum amount available, including

coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to \$12.2 billion of secondary financial protection (SFP). If a nuclear liability loss occurring at any U.S. licensed/commercial reactor exceeds the \$300 million insurance limit, all nuclear reactor owners could be required to contribute to the SFP. SDG&E's contribution would be up to \$47 million. This amount is subject to an annual maximum of \$7 million, unless a default occurs by any other SONGS owner. If the SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have \$2.75 billion of nuclear property, decontamination, and debris removal insurance. In addition, the SONGS owners have up to \$490 million insurance coverage for outage expenses and replacement power costs due to accidental property damage. This coverage is limited to \$3.5 million per week for the first 52 weeks, then \$2.8 million per week for up to 110 additional weeks. There is a 12-week waiting period deductible. These insurance coverages are provided through a mutual insurance company. Insured members are subject to retrospective premium assessments. SDG&E could be assessed up to \$8.5 million.

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.

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.

As described above, Sempra Generation has a contract with the DWR to supply up to 1,900 MW of power to the state over 10 years, beginning in 2001. Sempra Generation would be at risk for the amounts of outstanding billings and the continued viability of the contract if the DWR were to default on its payments under this contract. The average monthly billing related to this contract is \$26 million and is normally collected by the end of the next month.

When they become operational, projects at Sempra LNG and Sempra Pipelines & Storage 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.

As a transitional measure, we continue to provide back-up guarantees for a portion of RBS Sempra Commodities' trading obligations and for certain credit facilities with third party lenders pending novation of the remaining trading obligations to RBS, or after the closing of the transaction we discuss in Note 20, to J.P. Morgan Ventures Energy Corporation. In addition, in conjunction with the other owners of the Rockies Express, we guarantee Rockies Express' borrowings under its credit facility. We discuss these credit guarantees in Note 6.

NOTE 18. SEGMENT INFORMATION

We have five 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 Commodities* holds our investment in RBS Sempra Commodities, a joint venture with RBS. The partnership was formed on April 1, 2008 from our commodities-marketing businesses previously reported in this segment. The partnership's commodity trading businesses serve customers in natural gas, electricity, petroleum and petroleum products, and base metals. Sempra Commodities also includes the operating results of Sempra Rockies Marketing, which holds firm service capacity on the Rockies Express Pipeline. We provide further discussion regarding the joint venture in Note 4.

On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. We discuss this transaction and related agreements affecting the partnership in Note 20.

4. *Sempra Generation* develops, owns and operates, or holds interests in, electric power plants and energy projects in Arizona, California, Nevada, Indiana, Hawaii and Mexico to serve wholesale

electricity markets in North America.

5. *Sempra Pipelines & Storage* develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities in the United States and Mexico, and companies that provide natural gas or electricity services in Argentina, Chile, Mexico and Peru. We are currently pursuing the sale of our interests in the Argentine utilities, which we discuss further in Note 4. *Sempra Pipelines & Storage* also operates a small natural gas distribution utility in Southwest Alabama.

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

Sales to the DWR, which is a customer of the Sempra Generation segment and which is discussed in various sections of this Annual Report, comprised 9 percent of our revenues in 2009, 10 percent in 2008 and 9 percent in 2007.

The operations of Bangor Gas and Frontier Energy, which we discontinued in June 2006 and discuss in Note 5, had been in the Sempra Pipelines & Storage segment.

The following tables show selected information by segment from our Consolidated Statements of Operations and Consolidated Balance Sheets. The tables exclude amounts from discontinued operations, unless otherwise noted.

Amounts labeled as "all other" in the following tables consist primarily of parent organizations and Sempra LNG.

SEGMENT INFORMATION*(Dollars in millions)*

	Years ended December 31,								
	2009		2008		2007				
REVENUES									
SDG&E	\$	2,916	36 %	\$	3,251	30 %	\$	2,852	25 %
SoCalGas		3,355	41		4,768	44		4,282	38
Sempra Commodities		73	1		500	5		2,674	23
Sempra Generation		1,106	14		1,784	17		1,476	13
Sempra Pipelines & Storage		465	6		457	4		314	3
All other		278	3		74	1		(22)	-
Adjustments and eliminations		-	-		(7)	-		(51)	(1)
Intersegment revenues		(87)	(1)		(69)	(1)		(87)	(1)
Total	\$	8,106	100 %	\$	10,758	100 %	\$	11,438	100 %
INTEREST EXPENSE									
SDG&E	\$	104		\$	96		\$	96	
SoCalGas		68			62			70	
Sempra Commodities		7			23			48	
Sempra Generation		12			15			15	
Sempra Pipelines & Storage		34			18			16	
All other		303			156			206	
Intercompany eliminations		(161)			(117)			(179)	
Total	\$	367		\$	253		\$	272	
INTEREST INCOME									
SDG&E	\$	1		\$	6		\$	8	
SoCalGas		3			11			27	
Sempra Commodities		-			7			17	
Sempra Generation		12			9			28	
Sempra Pipelines & Storage		17			18			14	
All other		149			111			157	
Intercompany eliminations		(161)			(117)			(179)	
Total	\$	21		\$	45		\$	72	
DEPRECIATION AND AMORTIZATION									
SDG&E	\$	329	42 %	\$	298	43 %	\$	301	44 %
SoCalGas		293	38		280	41		281	41
Sempra Commodities		-	-		6	1		26	3
Sempra Generation		58	8		56	8		56	8
Sempra Pipelines & Storage		45	6		20	3		11	2
All other		50	6		27	4		11	2
Total	\$	775	100 %	\$	687	100 %	\$	686	100 %
INCOME TAX EXPENSE (BENEFIT)									
SDG&E	\$	177		\$	161		\$	135	
SoCalGas		144			140			160	
Sempra Commodities		108			201			252	
Sempra Generation		103			100			111	
Sempra Pipelines & Storage		(20)			23			(2)	
All other		(90)			(187)			(132)	
Total	\$	422		\$	438		\$	524	

SEGMENT INFORMATION (Continued)*(Dollars in millions)*

	Years ended December 31,								
	2009		2008		2007				
EQUITY EARNINGS (LOSSES)									
Earnings (losses) recorded before tax:									
Sempra Commodities	\$	463	\$	383	\$	-			
Sempra Generation		(2)		8		9			
Sempra Pipelines & Storage		50		43		(4)			
All other		(12)		(14)		(14)			
Total	\$	499	\$	420	\$	(9)			
Earnings recorded net of tax:									
Sempra Pipelines & Storage	\$	68	\$	60	\$	59			
Sempra Commodities		-		3		40			
Total	\$	68	\$	63	\$	99			
EARNINGS (LOSSES)									
SDG&E(1)	\$	344	31 %	\$	339	31 %	\$	283	25 %
SoCalGas(1)		273	24		244	22		230	21
Sempra Commodities		345	31		345	31		499	45
Sempra Generation		162	15		222	20		162	15
Sempra Pipelines & Storage		101	9		106	9		64	6
Discontinued operations		-	-		-	-		(26)	(2)
All other		(106)	(10)		(143)	(13)		(113)	(10)
Total	\$	1,119	100 %	\$	1,113	100 %	\$	1,099	100 %
ASSETS									
SDG&E	\$	10,229	36 %	\$	9,079	34 %	\$	8,499	30 %
SoCalGas		7,287	25		7,351	28		6,406	22
Sempra Commodities		2,255	8		2,092	8		8,620	30
Sempra Generation		2,048	7		1,860	7		1,759	6
Sempra Pipelines & Storage		4,485	16		4,060	15		2,287	8
All other		2,872	10		2,843	11		2,182	8
Intersegment receivables		(664)	(2)		(885)	(3)		(1,036)	(4)
Total	\$	28,512	100 %	\$	26,400	100 %	\$	28,717	100 %
EXPENDITURES FOR PROPERTY, PLANT & EQUIPMENT									
SDG&E	\$	955	50 %	\$	884	43 %	\$	714	35 %
SoCalGas		480	25		454	22		457	23
Sempra Commodities		-	-		21	1		43	2
Sempra Generation		38	2		59	3		13	1
Sempra Pipelines & Storage		200	10		264	13		267	13
All other		239	13		379	18		517	26
Total	\$	1,912	100 %	\$	2,061	100 %	\$	2,011	100 %
GEOGRAPHIC INFORMATION									
Long-lived assets:									
United States	\$	19,870	88 %	\$	17,637	88 %	\$	13,752	85 %
Latin America		2,734	12		2,476	12		2,352	15
Europe		-	-		-	-		23	-
Total	\$	22,604	100 %	\$	20,113	100 %	\$	16,127	100 %
Revenues:									
United States	\$	7,476	92 %	\$	9,743	91 %	\$	10,165	89 %
Latin America		630	8		918	8		652	6
Europe		-	-		93	1		525	5
Canada		-	-		(12)	-		37	-
Asia		-	-		16	-		59	-
Total	\$	8,106	100 %	\$	10,758	100 %	\$	11,438	100 %

*(1) After preferred dividends.***NOTE 19. QUARTERLY FINANCIAL DATA (UNAUDITED)****SEMPRA ENERGY***(In millions, except for per share amounts)*

	Quarters ended							
	March 31		June 30		September 30		December 31	
2009								
Revenues	\$	2,108	\$	1,689	\$	1,853	\$	2,456
Expenses and other income	\$	1,690	\$	1,433	\$	1,443	\$	2,064
Net income	\$	325	\$	189	\$	302	\$	306

Earnings attributable to Sempra Energy	\$	316	\$	198	\$	317	\$	288
Basic per-share amounts(1):								
Net income	\$	1.35	\$	0.78	\$	1.24	\$	1.25
Earnings attributable to Sempra Energy	\$	1.31	\$	0.82	\$	1.30	\$	1.18
Weighted average common shares outstanding		241.8		242.7		243.9		244.9
Diluted per-share amounts(1):								
Net income	\$	1.33	\$	0.76	\$	1.21	\$	1.23
Earnings attributable to Sempra Energy	\$	1.29	\$	0.80	\$	1.27	\$	1.16
Weighted average common shares outstanding		245.0		247.1		248.5		248.7
2008(2)								
Revenues	\$	3,270	\$	2,503	\$	2,692	\$	2,293
Expenses and other income	\$	2,920	\$	2,057	\$	2,314	\$	2,024
Net income	\$	244	\$	262	\$	302	\$	260
Earnings attributable to Sempra Energy	\$	242	\$	244	\$	308	\$	319
Basic per-share amounts(1):								
Net income	\$	0.94	\$	1.07	\$	1.24	\$	1.07
Earnings attributable to Sempra Energy	\$	0.94	\$	0.99	\$	1.26	\$	1.32
Weighted average common shares outstanding		258.6		245.6		243.8		241.7
Diluted per-share amounts(1):								
Net income	\$	0.93	\$	1.05	\$	1.22	\$	1.06
Earnings attributable to Sempra Energy	\$	0.92	\$	0.98	\$	1.24	\$	1.30
Weighted average common shares outstanding		262.7		249.7		247.9		244.5

(1) Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the year.

(2) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

In the first quarter of 2009, Net Income and Earnings Attributable to Sempra Energy included \$116 million at Sempra Commodities for earnings from the joint venture with RBS, compared to \$59 million of earnings for the commodities businesses in the same period in 2008, prior to the formation of the joint venture.

In the second quarter of 2009, Expenses and Other Income included an asset write-off of \$132 million related to Sempra Pipelines & Storage's Liberty Gas Storage project. The write-off negatively impacted Net Income and Earnings Attributable to Sempra Energy by \$97 million and \$64 million, respectively.

In the first quarter of 2008, Revenues included \$457 million and Expenses and Other Income included \$362 million for Sempra Commodities prior to the formation of RBS Sempra Commodities on April 1, 2008.

We discuss quarterly fluctuations related to SDG&E, PE and SoCalGas below.

SDG&E*(Dollars in millions)*

	Quarters ended			
	March 31	June 30	September 30	December 31
2009				
Operating revenues	\$ 732	\$ 631	\$ 773	\$ 780
Operating expenses	557	518	601	651
Operating income	\$ 175	\$ 113	\$ 172	\$ 129
Net income	\$ 107	\$ 91	\$ 92	\$ 83
(Earnings) losses attributable to noncontrolling interests	(7)	(20)	18	(15)
Earnings	100	71	110	68
Dividends on preferred stock	(1)	(1)	(2)	(1)
Earnings attributable to common shares	\$ 99	\$ 70	\$ 108	\$ 67
2008(1)				
Operating revenues	\$ 746	\$ 754	\$ 949	\$ 802
Operating expenses	617	642	757	665
Operating income	\$ 129	\$ 112	\$ 192	\$ 137
Net income	\$ 75	\$ 77	\$ 118	\$ 20
(Earnings) losses attributable to noncontrolling interests	-	(15)	7	62
Earnings	75	62	125	82
Dividends on preferred stock	(1)	(1)	(2)	(1)
Earnings attributable to common shares	\$ 74	\$ 61	\$ 123	\$ 81

(1) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

Net Income and Earnings Attributable to Common Shares in both the first and second quarters of 2009 included \$16 million of authorized base margin due to the implementation of the 2008 GRC in the third quarter 2008. We discuss the final CPUC decision, issued in July 2008, in Note 16.

Net Income and Earnings Attributable to Common Shares in the first quarter of 2008 included the favorable resolution of prior years' income tax issues of \$9 million. Net Income and Earnings Attributable to Common Shares in the third quarter of 2008 included \$33 million for the retroactive impact of the 2008 GRC decision for January 1 through June 30, 2008, offset by reserves for litigation matters of \$17 million.

PE*(Dollars in millions)*

	Quarters ended			
	March 31	June 30	September 30	December 31
2009				
Operating revenues	\$ 920	\$ 694	\$ 662	\$ 1,079
Operating expenses	810	579	527	963
Operating income	\$ 110	\$ 115	\$ 135	\$ 116
Net income	\$ 59	\$ 63	\$ 73	\$ 75
Preferred dividends of subsidiary	-	(1)	-	-
Earnings	59	62	73	75
Dividends on preferred stock	(1)	(1)	(1)	(1)
Earnings attributable to common shares	\$ 58	\$ 61	\$ 72	\$ 74
2008(1)				
Operating revenues	\$ 1,556	\$ 1,143	\$ 1,077	\$ 992
Operating expenses	1,447	1,041	946	899
Operating income	\$ 109	\$ 102	\$ 131	\$ 93
Net income	\$ 58	\$ 58	\$ 80	\$ 57
Preferred dividends of subsidiary	-	(1)	-	-
Earnings	58	57	80	57
Dividends on preferred stock	(1)	(1)	(1)	(1)
Earnings attributable to common shares	\$ 57	\$ 56	\$ 79	\$ 56

(1) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

SOCALGAS
(Dollars in millions)

	Quarters ended			
	March 31	June 30	September 30	December 31
2009				
Operating revenues	\$ 920	\$ 694	\$ 662	\$ 1,079
Operating expenses	810	578	530	961
Operating income	<u>\$ 110</u>	<u>\$ 116</u>	<u>\$ 132</u>	<u>\$ 118</u>
Net income	\$ 59	\$ 66	\$ 74	\$ 75
Dividends on preferred stock	-	(1)	-	-
Earnings attributable to common shares	<u>\$ 59</u>	<u>\$ 65</u>	<u>\$ 74</u>	<u>\$ 75</u>
2008				
Operating revenues	\$ 1,556	\$ 1,143	\$ 1,077	\$ 992
Operating expenses	1,446	1,042	946	900
Operating income	<u>\$ 110</u>	<u>\$ 101</u>	<u>\$ 131</u>	<u>\$ 92</u>
Net income	\$ 57	\$ 57	\$ 77	\$ 54
Dividends on preferred stock	-	(1)	-	-
Earnings attributable to common shares	<u>\$ 57</u>	<u>\$ 56</u>	<u>\$ 77</u>	<u>\$ 54</u>

Net Income and Earnings Attributable to Common Shares in both the first and second quarters of 2009 included \$3 million of authorized base margin due to the implementation of the 2008 GRC in the third quarter of 2008. We discuss the final CPUC decision, issued in July 2008, in Note 16.

Fluctuations in Revenues and Expenses and Other Income in 2009 compared to 2008 were largely driven by natural gas prices, which were substantially lower in 2009. Compared to the third quarter of 2009, Operating Revenues and Operating Expenses increased in the fourth quarter of 2009 due to higher natural gas prices and volumes.

Net Income and Earnings Attributable to Common Shares in the third quarter of 2008 for PE and SoCalGas included \$7 million for the retroactive impact of the 2008 GRC decision for January 1 through June 30, 2008.

Net Income and Earnings Attributable to Common Shares in the fourth quarter of 2008 for PE and SoCalGas included litigation expenses of \$7 million.

NOTE 20. SUBSEQUENT EVENT

In November 2009, RBS announced its intention to divest its interest in RBS Sempra Commodities in connection with a directive from the European Commission to dispose of certain assets. On February 16, 2010, Sempra Energy, RBS and the partnership (Seller Parties) entered into an agreement (the Purchase Agreement) with J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures), whereby J.P. Morgan Ventures will purchase the following businesses from the joint venture:

- § the global oil, metals, coal, emissions (other than emissions related to the partnership's North American power business), plastics, agricultural commodities and concentrates commodities trading and marketing business
- § the European power and gas business
- § the investor products business

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

The transaction is expected to close in the second quarter of 2010. J.P. Morgan Ventures will pay an aggregate purchase price equal to the estimated book value at closing of the businesses purchased, generally computed on the basis of IFRS (as adopted by the European Union), plus an amount equal to \$468 million. Sempra Energy will be entitled to 53-1/3 percent of the aggregate purchase price, and RBS will be entitled to 46-2/3 percent of the aggregate purchase price. We are currently evaluating the effect of the proposed transaction on our investment and share of equity method earnings, which will be impacted by the joint venture's allocation of goodwill to the transaction, U.S. GAAP/IFRS differences and the application of equity method accounting.

In conjunction with the transaction, JPMorgan Chase & Co. has delivered a guaranty in favor of the Seller Parties to guarantee certain obligations, including the payment obligations, of J.P. Morgan Ventures under the Purchase Agreement.

The closing is subject to several conditions, including the following:

- § governmental approvals from the U.K. Financial Services Authority, the U.S. Department of Justice or Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and antitrust approvals from regulators in Canada and in a limited number of other jurisdictions
- § if necessary, the obtaining of a license from the Swiss Federal Market Supervisory Authority
- § a condition to the obligation of the Seller Parties to close the transaction that JP Morgan Chase & Co. not experience a ratings downgrade below the level specified in the Purchase Agreement
- § entering into certain related agreements, including an agreement pursuant to which the partnership will provide transition services to the purchased businesses following the closing

In connection with the transaction under the Purchase Agreement, we and RBS entered into a letter agreement to negotiate, prior to closing of the transaction, definitive documentation to amend certain provisions of the Limited Liability Partnership Agreement dated April 1, 2008 between Sempra Energy and RBS (Partnership Agreement) to, among other things:

- § Consider the distribution of excess cash of the partnership to us and RBS
- § Eliminate each partner's preferred return (currently 15 percent per year) and to move to a 50/50 sharing of net income, if and when our invested capital is reduced to \$950 million or less by the return of capital to the partners
- § Terminate the restrictions on the partners' ability to transfer their partnership interests prior to April 2012 (but not the partners' right of first offer and other rights, including our tag-along right with respect to the transfer of that interest or the requirement that any transferee be reasonably acceptable to us)

As RBS continues to be obligated to divest its remaining interest in the partnership, the letter agreement also provides for negotiating the framework for the entertaining of bids for the remaining part of the partnership's business.

GLOSSARY

AB 32	California Assembly Bill 32	EITF	Emerging Issues Task Force
AD	Alternate Decision	Elk Hills	Elk Hills Power

AFUDC	Allowance for Funds Used During Construction	EPA	Environmental Protection Agency
ALJ	Administrative Law Judge	EPS	Earnings per Share
AOCI	Accumulated Other Comprehensive Income	ESOP	Employee Stock Ownership Plan
AMI	Advanced Metering Infrastructure	FASB	Financial Accounting Standards Board
ARB	Accounting Research Bulletin	FERC	Federal Energy Regulatory Commission
ASC	Accounting Standards Codification	FIN	FASB Interpretation
ASU	Accounting Standards Update	Fowler Ridge II	Fowler Ridge II Wind Farm
Bay Gas	Bay Gas Storage Company	FSP	FASB Staff Position
BCAP	Biennial Cost Allocation Proceeding	GAAP	Accounting Principles Generally Accepted in the United States of America
Bcf	Billion Cubic Feet (of natural gas)	GCIM	Gas Cost Incentive Mechanism
Black-Scholes Model	Black-Scholes Option-Pricing Model	GRC	General Rate Case
BLM	Bureau of Land Management	IBLA	Interior Board of Land Appeals
Cal Fire	California Department of Forestry and Fire Protection	ICSID	International Center for the Settlement of Investment Disputes
CARB	California Air Resources Board	IFRS	International Financial Reporting Standards
CBD	Center for Biological Diversity/Sierra Club	IOUs	Investor-owned Utilities
CEC	California Energy Commission	ISFSI	Independent Spent Fuel Storage Installation
CEOB	California Energy Oversight Board	ISO	Independent System Operator
CEQA	California Environmental Quality Act	J.P. Morgan Ventures	J.P. Morgan Ventures Energy Corporation
CFE	Comisión Federal de Electricidad	KMP	Kinder Morgan Energy Partners, L.P.
Conoco	ConocoPhillips	kV	Kilovolt
Court of Appeal	California Court of Appeal	Liberty	Liberty Gas Storage
CPUC	California Public Utilities Commission	LIFO	Last-in first-out inventory costing method
CRRs	Congestion Revenue Rights	LNG	Liquefied Natural Gas
DOE	Department of Energy	MBFC	Mississippi Business Finance Corporation
DRA	Division of Ratepayer Advocates	Mcf	Thousand Cubic Feet (of natural gas)
DWR	Department of Water Resources	Medicare Part D	Medicare
Ecogas	Ecogas Mexico, S de RL de CV	Mississippi Hub	Mississippi Hub, LLC
Edison	Southern California Edison Company	MICAM	Market Index Capital Adjustment Mechanism

GLOSSARY (CONTINUED)

MMBtu	Million British Thermal Units (of natural gas)	Rockies Express	Rockies Express Pipeline LLC
Mobile Gas	Mobile Gas Service Corporation	ROE	Return on Equity
MSCI	Morgan Stanley Capital International	ROR	Return on Rate Base
MSCI EAFE index	MSCI Index for equity market performance in Europe, Australasia and Far East	RPS	Renewables Portfolio Standard
MW	Megawatt	SDG&E	San Diego Gas & Electric Company
MWh	Megawatt hour	Seller Parties	Sempra Energy, Royal Bank of Scotland plc and RBS Sempra Commodities LLP
NAV	Net Asset Value per Share	Sempra Utilities	San Diego Gas & Electric Company and Southern California Gas Company
Ninth Circuit Court of Appeals	U.S. Court of Appeals for the Ninth Circuit	SFAS	Statement of Financial Accounting Standards
NRC	Nuclear Regulatory Commission	SFP	Secondary Financial Protection
OCI	Other Comprehensive Income	Shell	Shell México Gas Natural
OMEC	Otay Mesa Energy Center	SoCalGas	Southern California Gas Company
OMEC LLC	Otay Mesa Energy Center LLC	SONGS	San Onofre Nuclear Generating Station
Orange Grove	Orange Grove Energy L.P.	S&P	Standard & Poor's
Orange Grove VIE	Orange Grove Energy L.P.	Supreme Court	United States Supreme Court
Otay Mesa VIE	Otay Mesa Energy Center LLC	Tanggung PSC	Tanggung PSC Contractors
OTC	Over-the-counter	The Committee	Pension and Benefits Investment Committee
PBOP plan trusts	Postretirement benefit plan trusts	The Plan	Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals
PE	Pacific Enterprises	The Prior Plan	2008 Incentive Plan of EnergySouth, Inc.
PG&E	Pacific Gas and Electric	The Purchase Agreement	Agreement between Seller Parties and J.P. Morgan Ventures
ProLiance	ProLiance Transportation LLC	Trust	ESOP Trust
PRP	Potentially Responsible Party	UCAN	Utility Consumers Action Network
PX	Power Exchange	USFS	United States Forest Service
RasGas	Ras Laffan Liquefied Natural Gas Company Limited	VaR	Value at Risk
RBS	The Royal Bank of Scotland plc	VEBA	Voluntary Employee Beneficiary Association
RBS Sempra Commodities	RBS Sempra Commodities LLP	VIE	Variable Interest Entity
REX	Rockies Express Pipeline		

Exhibit 21.1
Sempra Energy
Schedule of Significant Subsidiaries
at December 31, 2009

Subsidiary	State of Incorporation or Other Jurisdiction
Enova Corporation	California
Pacific Enterprises	California
Pacific Enterprises International	California
San Diego Gas & Electric Company	California
Sempra Commodities, Inc.	Delaware
Sempra Energy International	California
Sempra Energy Holdings III B.V.	Netherlands
Sempra Energy Holdings XII B.V.	Netherlands
Sempra Energy Holdings X B.V.	Netherlands
Sempra Generation	California
Sempra Global	California
Southern California Gas Company	California

Exhibit 21.2
Pacific Enterprises
Schedule of Significant Subsidiaries
at December 31, 2009

Subsidiary	State of Incorporation or Other Jurisdiction
Southern California Gas Company	California

CERTIFICATION

I, Donald E. Felsing, 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 25, 2010

/s/ Donald E. Felsing
Donald E. Felsing
Chief Executive Officer

CERTIFICATION

I, Mark A. Snell, 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 25, 2010

/S/ Mark A. Snell
Mark A. Snell
Chief Financial Officer

CERTIFICATION

I, Debra L. Reed, 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 25, 2010

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

CERTIFICATION

I, Robert 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 25, 2010

/s/ Robert Schlax
Robert Schlax
Chief Financial Officer

CERTIFICATION

I, Debra L. Reed, certify that:

1. I have reviewed this report on Form 10-K of Pacific Enterprises;
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 25, 2010

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

CERTIFICATION

I, Robert Schlax, certify that:

1. I have reviewed this report on Form 10-K of Pacific Enterprises;
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 25, 2010

/S/ Robert Schlax
Robert Schlax
Chief Financial Officer

CERTIFICATION

I, Debra L. Reed, 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 25, 2010

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

CERTIFICATION

I, Robert 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 25, 2010

/S/ Robert Schlax
Robert 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, 2009 (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 25, 2010

/S/ Donald E. Felsing

Donald E. Felsing
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, 2009 (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 25, 2010

/s/ Mark A. Snell

Mark A. Snell

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, 2009 (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 25, 2010

/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 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, 2009 (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 25, 2010

/s/ Robert Schlax

Robert 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 Pacific Enterprises (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, 2009 (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 25, 2010

/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 Pacific Enterprises (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, 2009 (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 25, 2010

/s/ Robert Schlax

Robert 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 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, 2009 (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 25, 2010

/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 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, 2009 (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 25, 2010

/s/ Robert Schlax

Robert Schlax
Chief Financial Officer

RBS Sempra Commodities LLP and Subsidiaries

Consolidated Financial Statements as of
December 31, 2009 and 2008, and for the
Year Ended December 31, 2009, and the
Period From April 1, 2008 (Date of Commencement) to
December 31, 2008, and Report of
Independent Registered Public Accounting Firm

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND 2008, AND
FOR THE YEAR ENDED DECEMBER 31, 2009, AND THE PERIOD FROM
APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008:

Consolidated Statements of Financial Condition

Consolidated Statements of Income

Consolidated Statements of Cash Flows

Consolidated Statements of Changes in Members' Capital

Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members of
RBS Sempra Commodities LLP and Subsidiaries:

We have audited the accompanying consolidated statements of financial condition of RBS Sempra Commodities LLP and subsidiaries (the "Partnership") as of December 31, 2009 and 2008, and the related consolidated statements of income, cash flows, and changes in members' capital, for the year ended December 31, 2009 and the period from April 1, 2008 (Date of Commencement) to December 31, 2008. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with generally accepted auditing 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. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 RBS Sempra Commodities LLP and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the year ended December 31, 2009 and the period from April 1, 2008 to December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the consolidated financial statements, on February 16, 2010, the Partnership entered into an agreement to sell certain businesses.

/s/ Deloitte & Touche LLP

New York, New York

February 22, 2010

RBS SEMPra COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2009 AND 2008

(Dollars in thousands)

	2009	2008
ASSETS		
Cash and cash equivalents	\$139,276	\$190,182
Trading assets	4,594,647	5,833,511
Commodities owned	1,751,541	1,162,559
Receivables from affiliates — net	299,439	924,715
Investments in marketable securities	55,310	54,125
Finance lease receivable	193,244	192,328
Prepaid and other assets	238,451	355,682
Property, plant and equipment — net	149,824	144,889
Goodwill	371,418	371,418
	<hr/>	<hr/>
Total	\$7,793,150	\$9,229,409
LIABILITIES AND MEMBERS' CAPITAL		
LIABILITIES:		
Short-term borrowings	\$ -	\$320,236
Trading liabilities	3,487,647	4,521,149
Accounts payable and accrued liabilities	582,175	737,781
Payables to affiliate	3,859	1,433
	<hr/>	<hr/>
Total liabilities	4,073,681	5,580,599
MEMBERS' CAPITAL	<hr/>	<hr/>
	3,719,469	3,648,810
TOTAL	<hr/>	<hr/>
	\$7,793,150	\$9,229,409

See notes to consolidated financial statements.

RBS SEMpra COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009, AND THE PERIOD FROM
APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008

(Dollars in thousands)

	2009	2008
REVENUES:		
Fee income	\$999,093	\$1,397,376
Principal transactions — net	1,175,143	639,708
Interest and other income	4,918	13,805
	<hr/>	<hr/>
Total revenues	2,179,154	2,050,889
EXPENSES:		
Compensation and benefits	587,490	613,871
Storage and transportation	605,157	597,317
Facilities and communications	88,257	61,811
Brokerage, execution and clearing	73,325	59,656
Professional fees	40,394	27,612
Interest expense	40,132	23,867
Other expenses	73,014	55,985
	<hr/>	<hr/>
Total expenses	1,507,769	1,440,119
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES AND EQUITY IN INCOME (LOSS) OF UNCONSOLIDATED AFFILIATES — Net of provision for income taxes		
	671,385	610,770
PROVISION FOR INCOME TAXES		
	40,124	16,418
EQUITY IN INCOME (LOSS) OF UNCONSOLIDATED AFFILIATES — Net of provision for income taxes		
	8,059	(2,549)
	<hr/>	<hr/>
NET INCOME	\$639,320	\$591,803

See notes to consolidated financial statements.

RBS SEMpra COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009, AND THE PERIOD FROM
APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008

(Dollars in thousands)

	2009	2008
OPERATING ACTIVITIES:		
Net income	\$639,320	\$591,803
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91,980	63,652
Deferred taxes	(1,663)	3,101
Loss on investment in marketable securities	44,306	-
Loss on investment in unconsolidated affiliate	12,535	-
Equity in (income) loss of unconsolidated affiliates — net of provision for income taxes	(8,059)	2,549
Net change in:		
Trading assets	1,282,912	50,251
Commodities owned	(588,982)	459,139
Trading securities	10	15,931
Prepaid and other assets	45,773	(190,696)
Receivables from affiliates — net	625,276	(933,723)
Commodities sold under agreements to repurchase	-	(502,136)
Trading liabilities	(1,033,502)	317,389
Payables to affiliate	2,426	1,433
Accounts payable and accrued liabilities	(153,943)	259,559
Net cash provided by operating activities	958,389	138,252
INVESTING ACTIVITIES:		
Purchases of investments in available-for-sale securities	-	(3,348)
Distribution from investment in unconsolidated affiliates	1,650	-
Purchases of property, plant and equipment	(41,267)	(56,967)
Acquisition of subsidiaries — net of cash acquired	-	(2,372,273)
Proceeds from (increase in) finance lease receivable	9,095	(173,145)
Purchase of other investments	-	(15,000)
Net cash used in investing activities	(30,522)	(2,620,733)
FINANCING ACTIVITIES:		
Net decrease in short-term borrowings	(320,236)	(431,325)
Members' capital contributions	-	3,265,000
Distributions paid to members	(658,537)	(161,012)
Net cash (used in) provided by financing activities	(978,773)	2,672,663
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(50,906)	190,182
CASH AND CASH EQUIVALENTS — Beginning of period	190,182	-
CASH AND CASH EQUIVALENTS — End of period	\$139,276	\$190,182
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid during the period for income taxes		
	\$37,413	\$47,563

See notes to consolidated financial statements.

RBS SEMpra COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2009, AND THE PERIOD FROM
APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008

(Dollars in thousands)

	Comprehensive Income (Loss)	Members' Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Capital
BALANCE — April 1, 2008		\$-	\$-	\$-
Members' capital contributions		3,265,000	-	3,265,000
Net income	\$591,803	591,803	-	591,803
Other comprehensive income (loss) — net of applicable income taxes:				
Change in unrealized loss on available-for-sale securities	(43,765)	-	(43,765)	(43,765)
Change in unrealized loss on cash flow hedging activities	(3,216)	-	(3,216)	(3,216)
Comprehensive income	<u>\$544,822</u>			
Distributions paid to Members		(161,012)	-	(161,012)
BALANCE — December 31, 2008		3,695,791	(46,981)	3,648,810
Net income	\$639,320	639,320	-	639,320
Other comprehensive income (loss) — net of applicable income taxes:				
Change in unrealized gain (loss) on available-for-sale securities	45,828	-	45,828	45,828
Change in unrealized gain (loss) on cash flow hedging activities	44,048	-	44,048	44,048
Comprehensive income	<u>\$729,196</u>			
Distributions paid to Members		(658,537)	-	(658,537)
BALANCE — December 31, 2009		<u>\$3,676,574</u>	<u>\$42,895</u>	<u>\$3,719,469</u>

See notes to consolidated financial statements.

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND 2008, AND FOR THE YEAR ENDED DECEMBER 31, 2009, AND THE PERIOD FROM APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008

1. NATURE OF OPERATIONS

The Partnership engages in physical and financial derivative trading and marketing activities in natural gas, electricity, petroleum, petroleum products, base metals and other commodities with domestic and foreign corporations, financial institutions, multinational organizations, sovereign entities and end users. The Partnership's operations are subject to regulation by the Financial Services Authority, the New York Mercantile Exchange, the Commodity Futures Trading Commission, the Federal Energy Regulatory Commission (FERC), the London Metals Exchange, NYSE Euronext, the Board of Governors of the U.S. Federal Reserve System, and the National Futures Association.

2. FORMATION AND ORGANIZATION OF THE PARTNERSHIP

On July 9, 2007, Sempra Energy (Sempra) and The Royal Bank of Scotland plc (RBS) (collectively, the Members) entered into a Master Formation and Equity Interest Purchase Agreement to form a partnership, RBS Sempra Commodities LLP (the Partnership or RBSSC), to purchase and operate Sempra's commodity trading and marketing businesses. RBSSC is a partnership formed in the United Kingdom under the Limited Liability Partnership Act 2000. On April 1, 2008, Sempra and RBS made initial capital investments of \$1,600 million and \$1,665 million respectively. The Partnership simultaneously purchased Sempra's commodity trading and marketing subsidiaries (collectively, the Sempra Energy Trading Companies or SET Companies) at a price of \$2,754 million. The formation of the Partnership and the purchase of the SET Companies was effected on April 1, 2008 (Closing Date or Date of Commencement), although the partnership was legally formed on August 31, 2007.

The cost of the acquisition of \$2,754 million was allocated to the assets acquired and liabilities assumed based on their respective fair values. The fair value of net assets acquired was \$2,383 million and the excess purchase price of \$371 million was allocated as goodwill arising on the acquisition of the SET Companies.

The formation and operation of the Partnership is subject to various agreements between the Members including primarily the Master Formation and Equity Interest Purchase Agreement, the Limited Liability Partnership Agreement and the Commodities Trading Activities Master Agreement. These agreements include provisions which dictate, among other matters, the rights and responsibilities of the Members, capital contributions by the Members, the formation and termination of the Partnership, the profit distributions to the Members, the execution of commodities trading activities by the joint venture, and the governance of the Partnership. The Partnership will make profit distributions, as and when the Board determines, in accordance with the Limited Liability Partnership Agreement.

The Partnership is governed by a board of seven directors, three appointed by Sempra and four by RBS, acting on behalf of the designated members. The consent of Sempra will be required before the Partnership may take certain significant actions, including materially changing the scope of the Partnership's businesses, providing credit support outside the ordinary course, incurring certain types of indebtedness and entering into agreements of significant size or duration, all as more fully specified in the Limited Liability Partnership Agreement. The Partnership is fully consolidated by RBS.

On December 1, 2008, the UK Government through HM Treasury became the ultimate controlling party of the Royal Bank of Scotland Group plc (RBS Group, the ultimate parent company). The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government.

On November 3, 2009, RBS Group reached agreement with the UK Government on key terms of its participation in the Asset Protection Scheme (APS) on revised terms to those announced on February 26, 2009. To comply with the European Commission (EC) State Aid requirements RBS Group has agreed to a series of restructuring measures to be implemented over a four year period. In accordance with the restructuring measures RBS Group agreed to divest its interest in the Partnership (see Note 17 – Subsequent Events).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Partnership and entities controlled by the Partnership as of December 31, 2009. All material intercompany balances and transactions have been eliminated.

The Partnership has a controlling financial interest in an entity if it owns a majority of the voting interests of the entity or is considered the primary beneficiary of the entity. A variable interest entity (VIE) is consolidated by its primary beneficiary, who is the party subject to the majority of the expected losses or the majority of the expected residual returns of the VIE, or both. The Partnership assesses its involvement with VIEs to determine whether consolidation of VIEs is required. All facts and circumstances are taken into consideration when determining whether the Partnership has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE.

Trading Instruments — Trading assets and Trading liabilities are recorded on a trade-date basis. These amounts include unrealized gains and losses from exchange-traded futures and options and over-the-counter (OTC) forwards, swaps, and options. Unrealized gains and losses on OTC derivative transactions reflect amounts which would be received from or paid to a third party upon liquidation of these contracts under current market conditions. Unrealized gains and losses on these OTC derivative transactions are reported separately as assets and liabilities unless a legal right of setoff exists under enforceable master netting agreements. All derivative Trading assets and Trading liabilities are carried at fair value. Principal transaction revenues are recognized on a trade-date basis and include realized gains and losses and the net change in unrealized gains and losses.

Futures and exchange-traded option transactions are recorded as contractual commitments on a trade-date basis and are carried at fair value. Commodity forward and swap transactions are accounted for as contractual commitments on a trade-date basis and are carried at fair value derived from dealer quotations and underlying commodity exchange quotations. OTC options purchased or written are recorded on a trade-date basis and are carried at fair value.

Fair values for trading instruments not quoted in an active market are determined using appropriate valuation techniques, including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing trading instruments. These valuation techniques utilize, among other things, available market information, including current interest rates, commodity prices and volatility rates, as applicable. Where market information is not available or where management deems appropriate, current interest rates, commodity prices and volatility rates are estimated by reference to current market levels. Given the nature, size and timing of transactions, estimated values may differ from realized values.

Cash and Cash Equivalents — Cash and cash equivalents are comprised of cash on hand, demand deposits and other short-term highly liquid investments (with original maturities of three months or less) which are subject to an insignificant risk of changes in value. Cash paid for interest approximates interest expense.

Investments in Marketable Securities — Investments in marketable securities are accounted for on a specific identification basis and are reported at fair value, including reviews for impairment. Unrealized gains and losses on available-for-sale securities are included in Accumulated Other Comprehensive Income (Loss) (AOCI), net of applicable taxes. Unrealized gains and losses on trading securities are recorded in income. The Partnership reviews securities identified with an unrealized loss to determine if the impairment in value is temporary or other-than-temporary. The amount of any impairment loss that is recognized in current period earnings is dependent on the Partnership's intent to sell (or not sell) the security.

Investments in Unconsolidated Affiliates — Investments in affiliated companies are accounted for under the equity method when the Partnership has an ownership interest between 20% and 50% and is deemed to have significant influence but not control. The Partnership's percentage ownership of the affiliates' net assets are included in Prepaid and other assets, and are adjusted for the Partnership's share of each investee's earnings or losses, dividends and foreign currency translation effects, if any. Equity earnings or losses are recorded net of income tax as a separate caption on the Consolidated statements of income.

Commodities Owned — Commodities owned are recorded on a trade-date basis. Natural gas, oil and other non-base metal physical commodities are carried on a lower-of-cost-or-market basis. When a specific contract cost of new inventory cannot be determined, the Partnership uses the appropriate market index at the time of purchase as the cost basis.

Property, Plant and Equipment — Property, plant and equipment is carried at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over the estimated useful life of the asset, generally three to five years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvements or the remaining term of the lease. On a regular basis the Partnership assesses whether there is any indication that property, plant and equipment is impaired.

Goodwill — Goodwill is the excess of the cost of an acquisition over the Partnership's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition and is recognized at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes indicate that it might be impaired. The Partnership completed its annual goodwill impairment testing, as of September 30, 2009 and 2008, which did not result in any goodwill impairment.

Prepaid and Other Assets — Prepaid and other assets primarily consist of transactional tax deposits related to goods and services taxes and value added taxes, net deferred tax assets, interest receivables, deposits, expenses paid in advance, certain beneficial contracts and miscellaneous other investments. Beneficial contracts are amortized over their estimated useful lives.

Fee Income — Fee income includes fees earned by the Partnership while engaged in certain commodities trading activities, in its capacity as agent for RBS as dictated by various partnership agreements. This includes income derived from realized and unrealized gains and losses, net of associated execution costs, including interest, associated with the trading activities of the Partnership.

Income Taxes — The Partnership is a Limited Liability Partnership, incorporated under the Limited Liability Partnership Act of 2000 of the United Kingdom and the regulations made thereunder. For U.S. purposes RBSSC elected to be treated as a partnership for federal, state and local filings, as permitted. Each member is responsible for reporting its income or loss based on its share of the income and expenses. Certain subsidiaries of the Partnership are subject to tax in foreign jurisdictions where such subsidiary entity may be treated as a corporation under local tax law. The Partnership records the financial statement effects for the amount of income tax positions for which it is more likely than not that a tax position will not be sustained upon examination by the respective taxing authority.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported market value of assets and liabilities at the date and reporting period of the financial statements. The most important of the estimates and assumptions relate to fair value measures and the accounting for goodwill. The recorded values of these assets and liabilities may be more or less than values that might be realized, if the Partnership were to sell or close out the positions prior to maturity.

Foreign Currency Transactions — Foreign currency transactions are translated into U.S. dollars at the then current exchange rates during the reporting period. Assets and liabilities denominated in foreign currencies have been converted into U.S. dollars at year-end exchange rates. Gains and losses resulting from foreign currency transactions are included in Principal transactions — net.

Recently Issued Accounting Pronouncements — On September 15, 2009, the Financial Accounting Standards Board (FASB) enacted Statement of Financial Accounting Standards (SFAS) No. 168 (SFAS 168), “The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles”. This statement establishes the FASB Accounting Standards CodificationTM (the Codification) as the single source of authoritative GAAP in the United States. The topically-organized codification is not intended to change GAAP but it significantly changes the way that GAAP is presented and referenced in financial statements.

SFAS 168 also changes the way in which new authoritative GAAP is issued. The Financial Accounting Statements, FASB Interpretations, and Emerging Issues Task Force (EITF) abstracts were replaced by Accounting Standard Updates (ASU), which provide updates to the Codification, background information on about the new guidance and the basis for conclusions. New pronouncements issued before July 1, 2009 are referred to by their original title.

In March 2008, the FASB issued SFAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities — an Amendment of FASB Statement No. 133” (SFAS 161). SFAS 161 expands the disclosure requirements about an entities derivative instruments and hedging activities. The additional disclosures required by this Standard are included in Note 6 – Derivatives and Hedging Activities.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS No. 115-2 and FAS No. 124-2 “Recognition and Presentation of Other-Than-Temporary Impairments” (FSP FAS No. 115-2 and FAS No. 124-2) which change the method for determining whether an other-than-temporary impairment (OTTI) exists for debt securities and the amount of OTTI charges recorded in earnings. If an entity intends to sell a security and it is more-likely-than-not that the entity will sell the security prior to recovering its cost basis, an OTTI exists and the entire difference between the fair value and the cost basis will be reflected in earnings. If an entity does not intend to sell a security and it is more-likely-than-not that the entity will sell the security prior to recovering its cost basis, the portion of the difference between the fair value and the cost basis related to credit losses will be treated as an OTTI and reflected in earnings. The remaining difference will be recognized as part of other comprehensive income. In addition to the new OTTI determination method, entities are required to provide enhanced disclosures, including methodology details and key inputs used for determining the amount of credit losses recorded in earnings. FSP FAS No. 115-2 and FAS No. 124-2 were effective upon issuance and incorporated in the initial release of the Codification under the topic on Investments in Debt and Equity Securities. The adoption of FSP FAS No. 115-2 and FAS No. 124-2 did not materially affect the Partnership’s consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 157-4 “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (FSP FAS No. 157-4) which provides additional guidance to determine the fair value of a financial instrument in an inactive market. If the market for a financial instrument is inactive and it is determined that one or more quoted prices are associated with one or more distressed transactions, the reporting entity may use valuation methods other than one that uses quoted prices without significant adjustment. Otherwise, the quoted price is viewed as a valid quote and should be used as a relevant input to the fair value. FSP FAS No. 157-4 was effective upon issuance. The adoption of FSP FAS No. 157-4 did not materially impact the Partnership’s consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165 “Subsequent Events” (SFAS 165) which establishes standards to account for and disclose events that occur after balance sheet date but before the financial statements are issued. The statement specifies that an entity must disclose all subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including any estimates that were inherent in the process of preparing the financial statements. The statement also specifies that an entity must disclose the date through which subsequent events were evaluated. This statement was effective upon issuance. The adoption of SFAS 165 did not materially impact the Partnership’s consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166 “Accounting for Transfers of Financial Assets — an Amendment of FASB Statement No. 140” (SFAS 166) and SFAS No. 167 “Amendments to FASB Interpretation No. 46(R)” (SFAS 167) that amend the accounting requirements for securitizations and, specifically those utilizing Qualifying Special Purpose Entities (QSPEs). SFAS 166 retains the legal isolation criteria for sale accounting but eliminates the QSPE concept, and transfers of participations are now limited to only pro-rata participations. Under SFAS 167 amendments, all variable interest entities (VIEs), including former QSPEs, need to be considered for consolidation, and an increased number of circumstances will trigger reconsideration of VIE status. The method for determining the Primary Beneficiary of a VIE has been changed from a quantitative model to a qualitative model which focuses on the power to direct the activities of the VIE. SFAS 166 and SFAS 167 also require enhanced disclosures about transfers of financial assets and interests in variable interest entities. Both statements are effective for reporting periods beginning after November 15, 2009. The Partnership does not expect the adoption of these standards to have a material impact on the Partnership’s consolidated financial statements.

4. TRANSACTIONS WITH AFFILIATES

In the normal course of business the Partnership conducts transactions with affiliated companies.

In accordance with the Master Formation and Equity Interest Purchase Agreement, and provided the required consents were obtained, RBS has assumed, and the SET Companies have novated to RBS, the rights and obligations of certain contractual arrangements of the SET Companies that existed prior to the formation of the Partnership. This included various trading agreements and other material business contracts as defined. To the extent that such contracts have not been novated to RBS, RBS assumed the risk and rewards of ownership of those contracts through the execution of market risk index swaps with certain subsidiary companies of the Partnership. The market risk index swaps effectively transfer the risks and rewards, related to market risk, of the contracts, along with the associated income and expenses, from certain SET Companies to RBS. However, all such risks, rewards, income and related expenses are for the Partnership’s account.

For novated counterparties the Partnership acts as agent for RBS and receives fee income from RBS. This fee income represents realized and unrealized gains and losses, net of execution costs associated with these activities.

The performance of certain non-novated counterparts is guaranteed by Sempra. RBS has agreed to indemnify Sempra for any associated claims under Sempra’s guarantee.

The Partnership earned interest income and incurred interest expenses with RBS related to the Partnership’s operating and investing activities. The Partnership was also allocated costs from RBS related to compensation and benefits for services provided.

The following table summarizes the Partnership’s assets and liabilities as of December 31, 2009 and 2008 and the Partnership’s revenues and expenses for the year ended December 31, 2009 and for the period from April 1, 2008 (date of commencement) to December 31, 2008 with affiliated companies (in thousands):

	2009	2008
Assets:		
Trading assets	\$156,748	\$139,850
Receivables from affiliates — net	299,439	924,715
Liabilities:		
Trading liabilities	383,116	399,720
Payables to affiliate	3,859	1,433
Revenues and expenses:		
Fee income	999,093	1,397,376
Principal transactions — net	(103)	(2,477)
Interest income	266	5,783
Interest expense	1,692	13,895
RBS allocated expenses	4,896	2,443

5. TRADING ASSETS AND TRADING LIABILITIES

As of December 31, 2009 and 2008, Trading assets and Trading liabilities are comprised of the following (in thousands):

	2009	2008
Trading assets:		
Unrealized gains on forwards, swaps and options	\$2,578,446	\$3,376,475
Due from commodity clearing brokers	657,503	801,114
Due from trading counterparties	2,012,649	2,960,366
Less effect of netting	(653,951)	(1,304,444)
	<u>\$4,594,647</u>	<u>\$5,833,511</u>
Trading liabilities:		
Unrealized losses on forwards, swaps and options	\$2,298,474	\$3,647,342
Due to trading counterparties	1,843,124	2,178,251
Less effect of netting	(653,951)	(1,304,444)
	<u>\$3,487,647</u>	<u>\$4,521,149</u>

6. DERIVATIVES AND HEDGING ACTIVITIES

The Partnership utilizes derivative instruments, which include forwards, swaps, options, and futures to reduce its exposure to unfavorable changes in market prices.

The Partnership recognizes derivative instruments as either assets or liabilities in the Consolidated statements of financial condition and measures those instruments at fair value. The changes in fair value of a majority of the derivative transactions of the Partnership are currently presented, in all material respects, as a component of Principal transactions — net in the Consolidated statements of income. The accounting for changes in the fair value of other derivatives depends on the intended use of the derivative and the resulting designation.

Hedge accounting treatment can be applied when certain criteria are met. For a derivative instrument designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting gain or loss on the hedged item of the risk being hedged. For a derivative being designated as a cash flow hedge, the effective portion of the derivative gain or loss is initially reported as a component of AOCI and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion (excess derivative gain or loss) is reported in earnings immediately.

The following table summarizes the fair values of the Partnership's derivative assets and liabilities, as well as the notional values of its derivative transactions as of December 31, 2009 (in thousands).

	Derivative Assets	Derivative Liabilities	Notional Value
Derivatives accounted for as trading activities — commodity contracts	\$6,820,619	\$5,211,601	\$270,122,254
Derivatives accounted for as hedges:			
Commodity contracts	93,377	297,817	2,012,324
Interest rate contracts	3,762	11,999	910,586
	<hr/>	<hr/>	<hr/>
Total derivative contracts accounted for as hedges	97,139	309,816	2,922,910
	<hr/>	<hr/>	<hr/>
Gross fair value of derivative contracts	6,917,758	5,521,417	\$273,045,164
	<hr/>	<hr/>	<hr/>
Counterparty Netting (1)	(3,160,980)	(3,160,980)	
Collateral netting (2)	(387,896)	(266,055)	
	<hr/>	<hr/>	
Fair value included in Trading assets and liabilities	\$3,368,882	\$2,094,382	

(1) Represents the netting of counterparty balances pursuant to various contractual agreements.

(2) Represents the netting of cash collateral received and posted on a counterparty basis pursuant to credit support agreements.

Derivatives Accounted for as Trading Activities — The Partnership primarily uses trading derivative instruments to reduce its exposure to commodity price risk. Gains and losses attributable to trading derivatives are included in Principal transactions — net in the Consolidated statements of income. The amount below summarizes the gains related to derivative instruments classified as trading for the year ended December 31, 2009 (in thousands).

Commodity contracts	\$838,237
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Derivatives Accounted for as Hedges — The Partnership utilizes both fair value hedges and cash flow hedges to hedge commodity price risk as well as interest rate risk.

Derivatives designated as fair value hedges are used to hedge price risk in commodity inventories as well as interest rate risk. Gains and losses related to fair value hedges are recorded under Principal transactions — net in the Consolidated statements of income. The amounts below summarize the gains and losses related to derivatives designated in fair value hedge relationships for year ended December 31, 2009 (in thousands).

Commodity contracts	(\$529,033)
Interest rate contracts	7,095
Total	<hr/> (\$521,938)

The amounts below summarize the gains and losses related to non-derivative hedged items designated in fair value hedge relationships for year ended December 31, 2009 (in thousands).

Commodities owned	\$908,482
Finance lease receivable	(6,140)
Total	<hr/> \$902,342

Ineffectiveness relating to fair value hedges resulted in a positive impact on revenue of approximately \$380 million and \$5 million for the year ended December 31, 2009 and for the period from April 1, 2008 to December 31, 2008, respectively.

Derivatives designated as cash flow hedges are used primarily to hedge the commodity price risk associated with natural gas purchases and sales related to transportation and storage capacity arrangements. The effective portion of cash flow hedges reclassified to income in the current year as well as the ineffectiveness gains and losses on cash flow hedges are recorded in Principal transactions — net in the Consolidated statements of income. The amounts below summarize the gains and losses and

the impacts on comprehensive income of cash flow hedging activities for year ended December 31, 2009 (in thousands).

	Derivatives — Effective Portion Reclassified to Income	Hedge Ineffectiveness Recorded in Income	Derivatives — Effective Portion Recorded in OCI
Commodity contracts	\$15,098	\$3,405	(\$44,095)

A net derivative unrealized gain/(loss) of approximately \$41 million and \$(3) million is included in AOCI for 2009 and 2008, respectively. The ineffective portion of cash flow hedges resulted in a positive impact on revenue of approximately \$3 million and \$13 million for the year ended December 31, 2009 and the period from April 1, 2008 to December 31, 2008, respectively. Derivative unrealized gains included in AOCI expected to affect earnings in 2010 are approximately \$50 million. Due to volatility and uncertainty in the commodity markets, the corresponding value in AOCI will likely change prior to its reclassification to earnings. As of December 31, 2009, the maximum tenor of derivative instruments that hedge forecasted purchase and sales transactions is 6 years.

7. FAIR VALUE OF ASSETS AND LIABILITIES

The Partnership applies recurring fair value measurements to certain assets and liabilities that are carried at fair value. 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). The Partnership utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Partnership primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Partnership utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Partnership is able to classify fair value balances based on the observability of those inputs. The fair value hierarchy 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 defined as follows:

Level 1 — Quoted prices are available in active exchange markets for identical assets or liabilities as of the reporting date. Active exchange 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. Level 1 primarily consists of financial instruments such as exchange-traded derivatives and listed equities.

Level 2 — Quoted prices in active and inactive markets are not available, however, pricing inputs 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, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic data. 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. Instruments in this category include non-exchange-traded derivatives such as forwards, swaps and options and certain exchange traded/cleared derivatives.

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. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. At each balance sheet date, the Partnership performs an analysis of all assets and liabilities at fair value and includes in Level 3 all of those whose fair value is based on significant unobservable inputs.

The following tables set forth by level within the fair value hierarchy the assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 and 2008. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Partnership's 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.

As of December 31, 2009 (in thousands)				
Assets	Level 1	Level 2	Level 3	Total (1)
Exchange-traded/cleared derivative instruments	\$676,215	\$502,118	\$-	\$1,178,333

OTC derivative trading instruments	-	2,483,475	94,971	2,578,446
Commodities owned	-	1,741,097	-	1,741,097
Available-for-sale securities	45,504	2,229	7,357	55,090
Trading securities	220	-	-	220
Total	\$721,939	\$4,728,919	\$102,328	\$5,553,186
Liabilities	Level 1	Level 2	Level 3	Total (1)
Exchange-traded/cleared derivative instruments	\$49,798	\$12,165	\$-	\$61,963
OTC derivative trading instruments	-	2,168,015	130,459	2,298,474
Total	\$49,798	\$2,180,180	\$130,459	\$2,360,437

(1) Amounts exclude the effects of netting

As of December 31, 2008 (2)
(in thousands)

Assets	Level 1	Level 2	Level 3	Total (1)
Exchange-traded/cleared derivative instruments	\$1,533,252	\$993,727	\$-	\$2,526,979
OTC derivative trading instruments	-	3,352,884	23,591	3,376,475
Commodities owned	-	1,152,716	-	1,152,716
Available-for-sale securities	21,322	2,010	7,111	30,443
Trading securities	210	-	-	210
Total	\$1,554,784	\$5,501,337	\$30,702	\$7,086,823
Liabilities	Level 1	Level 2	Level 3	Total (1)
Exchange-traded/cleared derivative instruments	\$94,660	\$10,299	\$-	\$104,959
OTC derivative trading instruments	-	3,621,035	26,307	3,647,342
Total	\$94,660	\$3,631,334	\$26,307	\$3,752,301

(1) Amounts exclude the effects of netting

(2) Management has made adjustments to its original classification of certain financial instruments for purposes of this table. Accordingly, approximately \$518 million in assets and \$40 million in liabilities have been changed from Level III to Level II.

Exchange-traded/cleared derivative instruments, which are cash settled during the life of the transaction, are classified as part of Trading assets and shown net on the Consolidated statements of financial condition. The table above does not include certain commodities owned that are carried on a lower-of-cost-or-market basis. The table does include a portion of commodities owned for which fair value hedge accounting is applied.

	As of December 31, 2009 (in thousands)	As of December 31, 2008 (in thousands)
Commodities owned:		
Per consolidated statements of financial condition	\$1,751,541	\$1,162,559
Less amounts recorded at lower-of-cost-or-market	10,444	9,843
Per recurring fair value measures table	<u>\$1,741,097</u>	<u>\$1,152,716</u>

The determination of the fair values above incorporates various factors including not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of the Partnership's non-performance risk on its liabilities.

Trading derivatives and commodities owned reflect positions held by the Partnership. The fair value of derivative contracts, which include futures and exchange-traded options, is generally based on unadjusted quoted prices in active exchange markets and are classified within Level 1. Some exchange-cleared derivatives are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets. In such cases, these exchange-traded/cleared derivatives are classified within Level 2. In addition, certain OTC-cleared forwards, swaps, and options are included in Level 2. OTC derivative trading instruments include forwards, swaps, and options and complex structures that are valued at fair value and may be offset with similar positions in exchange-cleared markets. In certain instances, these instruments may utilize models to measure fair value. Generally, the Partnership uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted

prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs (i.e., inputs derived principally from or corroborated by observable market data by correlation or other means.) Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain OTC derivatives traded in less active markets with a lower availability of pricing information. In addition, complex or structured transactions can introduce the need for internally-developed model inputs that might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.

The following table sets forth a reconciliation of changes in the fair value of net trading derivatives classified as Level 3 in the fair value hierarchy (in thousands):

Balance as of April 1, 2008	\$436,164
Realized and unrealized gains (losses)	(462,896)
Purchases, settlements, sales and issuances	20,154
Transfers in and/or out of Level 3	<u>10,972</u>
Balance as of December 31, 2008	4,394
Realized and unrealized gains (losses)	(194,473)
Purchases, settlements, sales and issuances	8,824
Transfers in and/or out of Level 3	<u>153,124</u>
Balance as of December 31, 2009	<u>(\$28,131)</u>
Change in unrealized gains (losses) relating to instruments still held as of December 31, 2009	<u>(\$126,398)</u>

Gains and losses (realized and unrealized) for Level 3 items are included primarily in Principal transactions — net.

Transfers in and/or out of Level 3 represent existing assets or liabilities that were either previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period.

Given the nature, size, timing and tenor of certain complex transactions, changing one or more of the less observable inputs within the valuation model, may materially change the values used by management.

8. TRADING ACTIVITY AND RISK MANAGEMENT

The Partnership derives a substantial portion of its revenue from market-making and trading activities, as an agent for RBS and as principal, in natural gas, electricity, petroleum, petroleum products, base metals and other commodities. It quotes bid and offer prices to other market makers and end users. It also earns trading profits as a dealer by structuring and executing transactions that permit its counterparts to manage their risk profiles. In addition, it takes positions in markets based on the expectation of future market conditions. These positions may be offset with similar positions or may be offset by positions taken in exchange-traded markets. These positions include forwards, swaps, options, and futures. These financial instruments represent contracts with counterparts whereby payments are linked to or derived from market indices or on terms predetermined by the contract, which may or may not be financially settled by the Partnership.

Forward and future transactions are contracts for delayed delivery of commodity instruments in which the counterparty agrees to make or take delivery at a specified price. Commodity swap transactions may involve the exchange of fixed and floating payment obligations without the exchange of the underlying commodity. For additional information about derivatives and related hedging activities see Note 6 — Derivatives and Hedging Activities.

Options, which are either exchange-traded or directly negotiated between counterparties, provide the holder with the right to buy from or sell to the writer an agreed amount of commodity at a specified strike price within, or at, a specified period of time. As a writer of options, the Partnership receives an option premium then manages the risk of an unfavorable change in the value of the underlying commodity.

Market risk arises from the potential for changes in the value of physical and financial instruments resulting from fluctuations in prices and basis for natural gas, electricity, petroleum, petroleum products, base metals and other commodities. Market risk is also affected by changes in volatility and liquidity in markets in which these instruments are traded. The Partnership has established position and stop-loss

limits for each line of business to monitor its market risk. Traders are required to maintain positions within these market risk limits. The position limits are monitored during the day by senior management of the Partnership. Reports which present each trading book's position and the prior day's profit and loss are reviewed daily by traders and the Partnership's senior management.

The Partnership also uses Value-at-Risk (VaR) to measure its exposure to market risk. 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. The Partnership has adopted the historical simulation methodology in its calculation of VaR, and uses a 95-percent confidence interval. Holding periods are specific to the types of positions being measured, and are determined based on the size of the position or portfolios, market liquidity, tenor and other factors. Historical volatilities are used in the calculation. Based upon these and other risk management procedures, the Partnership's senior management determines whether to adjust the Partnership's market risk profile.

The Partnership's credit risk from physical and financial instruments as of December 31, 2009 and 2008 is represented by the positive fair value of financial instruments after consideration of netting and collateral in the form of customer margins and Letters of Credit. Credit risk disclosures, however, relate to the net losses that would be recognized if all counterparties failed to completely perform their obligations. Options written expose the Partnership to credit risk until premiums are paid by the counterparty. Exchange-traded futures and options are not deemed to have significant credit exposure as the exchanges guarantee that every contract will be properly settled on a daily basis.

The following table approximates the counterparty credit quality and exposure expressed in terms of net replacement value as determined by rating agencies or by internal models intended to approximate rating agency determinations. These exposures are net of collateral in the form of customer margin and/or letters of credit of \$554 million and \$955 million as of December 31, 2009 and 2008, respectively:

	2009	2008
Counterparty credit quality (in thousands):		
AAA	\$20,454	\$20,467
AA	174,389	338,739
A	734,819	692,580
BBB	605,580	556,036
Below investment grade	826,296	882,963
Exchanges	657,503	801,114
	<u>\$3,019,041</u>	<u>\$3,291,899</u>

The Partnership monitors and controls its credit risk exposures through various systems and processes, which evaluate the Partnership's credit risk through credit approvals and limits. To manage the level of credit risk the Partnership enters into netting agreements whenever possible and, where appropriate, obtains collateral. Netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterpart in the event of default.

The Partnership provides committed and uncommitted letters of credit issued by various banks, in addition to cash, to counterparts to satisfy various collateral and margin deposit requirements (see Note 13 — Borrowings and Credit Facilities).

9. INVESTMENTS IN MARKETABLE SECURITIES

Available-for-Sale Securities — The Partnership held equity securities of \$55.1 million and \$53.9 million categorized as available-for-sale securities, included in Investments in marketable securities as of December 31, 2009 and 2008, respectively. As of December 31, 2009, gross unrealized gains were \$7.9 million and gross unrealized losses were \$9.9 million, and as of December 31, 2008, gross unrealized gains were \$0.1 million and gross unrealized losses were \$47.6 million. During 2009, the Partnership realized a loss on available-for-sale securities, that was previously recorded in AOCI, of \$44.3 million. During 2008, the Partnership purchased \$2.0 million and novated to RBS \$30.3 million of available-for-sale securities. The fair value of securities in an unrealized loss position at December 31, 2009 was \$20.8 million and was \$37.0 million at December 31, 2008. The unrealized losses were primarily caused by temporary declines in the market values of the securities. As of December 31, 2009, the Partnership does not consider these investments to be other-than-temporarily impaired.

Trading Securities — As of December 31, 2009 and 2008, the Partnership had \$0.2 million and \$0.2 million of securities classified as trading securities, respectively, included in Investments in marketable securities. The Partnership recorded unrealized losses of \$0.7 million related to trading securities for the period from April 1, 2008 to December 31, 2008. During 2008, the Partnership sold \$2.5 million and novated to RBS \$2.0 million of trading securities.

10. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

As of December 31, 2009 and 2008, the Partnership owned 30% of Gateway Energy Services Corporation (Gateway). Gateway is a retail marketer of natural gas and electricity, serving residential, commercial, and light industrial customers primarily in the northeast, mid-west, and mid-atlantic regions

of the U.S. During 2009, the Partnership recorded a loss of \$12.5 million on its investment in Gateway. As of December 31, 2009 and 2008 the Partnership owned 25% of Great Eastern Energy Co. LLC (GEEC). GEEC supplies natural gas and electricity to commercial and industrial customers within major markets across the United States. During 2009, the Partnership received a \$1.6 million distribution from GEEC. The carrying value of these investments is \$28.0 million and \$34.1 million as of December 31, 2009 and 2008, respectively, and is included in Prepaid and other assets.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation. These assets consist of leasehold improvements and office equipment, computer equipment (which includes computer hardware and software) and machinery and equipment. Property, plant and equipment by major functional categories are as follows (in thousands):

As of December 31, 2009	Cost	Accumulated Depreciation	Book Value
Leasehold improvements and office equipment	\$121,646	\$37,522	\$84,124
Computer equipment	215,668	153,999	61,669
Machinery and equipment	9,471	5,440	4,031
	<u>\$346,785</u>	<u>\$196,961</u>	<u>\$149,824</u>

As of December 31, 2008	Cost	Accumulated Depreciation	Book Value
Leasehold improvements and office equipment	\$115,620	\$29,485	\$86,135
Computer equipment	184,281	127,948	56,333
Machinery and equipment	7,625	5,204	2,421
	<u>\$307,526</u>	<u>\$162,637</u>	<u>\$144,889</u>

12. FINANCE LEASE RECEIVABLE

In connection with a transaction entered into during 2008, the Partnership entered into a sales type lease that is recorded in the consolidated statements of financial condition as a Finance lease receivable. The balances at December 31, 2009 and December 31, 2008 are as follows (in thousands):

Gross receivable	\$211,988	\$224,254
Unearned income	(133,744)	(146,926)
Unguaranteed residual value	<u>115,000</u>	<u>115,000</u>
Finance lease receivable	<u>\$193,244</u>	<u>\$192,328</u>

Contractual maturities of the gross receivable as of December 31, 2009 were as follows (in thousands):

2010	\$11,111
2011	14,273
2012	14,893
2013	13,233
2014	19,740
Thereafter	<u>138,738</u>
	<u>\$211,988</u>

13. BORROWINGS AND CREDIT FACILITIES

Certain subsidiaries of the Partnership have a \$1.72 billion, five year committed syndicated revolving credit facility (consisting of borrowings, letters of credit and other credit support accommodations) maturing in September 2010. The amount of credit available under the facility is limited to the amount of a borrowing base consisting of receivables, inventories and other assets of a subsidiary of the Partnership that secure the credit facility and are valued for purposes of the borrowing base at varying percentages of current market value. Extensions of credit are guaranteed by Sempra Energy subject to a maximum guarantee liability of 20% of the lenders' total commitments under the facility. The facility requires a subsidiary of the Partnership to meet certain financial tests at the end of each quarter, including minimum working capital, leverage ratio, senior debt to tangible net worth ratio, and minimum net worth and tangible net worth tests. It also imposes certain other limitations on the subsidiary and certain affiliates, including certain limitations on other indebtedness, capital expenditures, liens, transfers of assets, investments, loans, advances, dividends, other distributions, modifications of risk management policies and transactions with affiliates. As of December 31, 2009, the facility had

\$968 million of letters of credit and no borrowings outstanding. In addition to commitment fees, these borrowings accrue interest at market rates based on a base rate or libor plus a fixed margin. In May 2008, the facility was amended to permit the implementation of the transfer of certain businesses of the Partnership to RBS and to ensure that after such transfer, the Partnership businesses would continue to be able to utilize the credit facility. In addition, there were adjustments to covenants and the margin applicable to loans.

At December 31, 2009, RBS, on behalf of itself and certain subsidiaries of the Partnership, maintained \$1.282 billion in various uncommitted lines of credit. At December 31, 2009, these facilities had outstanding \$985 million of letters of credit and no short term borrowings. These facilities exclude a line of credit provided by RBS to subsidiaries of the Partnership as well as loans made by RBS to the Partnership (or its subsidiaries) pursuant to its obligation to lend cash and other working capital to the Partnership as necessary to fund all of its ongoing operating expenses, to provide capital to the Partnership to support the trading activities of its subsidiaries at a level prevailing as of April 1, 2008, to support the business plan of the Partnership, and to support its reasonable growth.< A
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14. INCOME TAXES

The Partnership is a Limited Liability Partnership, incorporated under the laws of the United Kingdom and for U.S. purposes has elected to be treated as a Partnership for U.S. federal, state and local filings. The income or loss applicable to the operations of the Partnership is includable in the U.S. income tax returns of the Members. Certain subsidiaries of the Partnership are subject to tax in foreign jurisdictions where such subsidiary is treated as a corporation under local tax laws.

The provision for income taxes is summarized below (in thousands):

	For the Year Ended December 31, 2009	For the Period Ended December 31, 2008
Current — foreign	\$34,553	\$13,317
Current — state	7,234	-
Deferred — foreign	(1,663)	3,101
Total provision for income taxes	<u>\$40,124</u>	<u>\$16,418</u>

As of December 31, 2009 and 2008, the Partnership has a net deferred tax asset of \$3.2 million and \$3.8 million, respectively.

The provision for income taxes varies from the federal income tax rate of 35% primarily because the entity is treated as a partnership for federal and state tax purposes and the income or loss applicable to its operations is included in the income tax returns of the Members.

The total amounts of gross unrecognized tax benefits at the beginning and ending of the year are as follows (in thousands):

Unrecognized tax benefits, as of April 1, 2008	\$38,315
Gross decreases — tax positions in prior period	<u>(26,920)</u>
Unrecognized tax benefits, as of December 31, 2008	11,395
Gross increases — tax positions in prior period	2,106
Gross decreases — tax positions in prior period	(9,483)
Gross increases — current period tax positions	<u>1,758</u>
Unrecognized tax benefits, as of December 31, 2009	<u>\$5,776</u>

Of the total unrecognized tax benefits, approximately \$6 million represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods.

As a result of the organization of the Partnership (see Note 2 — Formation and Organization of the Partnership), any tax liability arising from the Partnership's operations prior to the effective date of the joint venture will be borne by Sempra. The Partnership commenced on April 1, 2008. The current year ended December 31, 2009 and the prior short period from April 1, 2008 to December 31, 2008 are open under statute for examination for U.S. federal, state and local tax returns. The statute of limitations for other material foreign tax returns remains open for 1995 and forward.

15. EMPLOYEE BENEFIT PLANS

The Partnership's employees participate in various benefit plans, including a defined contribution savings plan (401(k) plan). Included in Compensation and benefits is approximately \$13.2 million and \$10.7 million of expenses for the year ended December 31, 2009 and the period ended December 31, 2008, respectively, related to these plans.

16. COMMITMENTS AND CONTINGENCIES

Minimum non-cancelable lease commitments for office facilities, exclusive of real estate taxes and other expenses are as follows (in thousands):

2010	\$33,630
2011	23,644
2012	15,708
2013	12,453
2014	9,047
Thereafter	<u>30,710</u>
	<u>\$125,192</u>

Office leases, which expire at various dates through 2024, contain provisions for escalation based on certain cost increases incurred by the lessors. Rent expense was \$12.9 million and \$9.4 million for the year ended December 31, 2009 and for the period from April 1, 2008 (date of commencement) to December 31, 2008, respectively.

As part of its normal business, the Partnership enters into various fixed-price non-cancelable commitments to purchase or sell transportation and storage capacity. These commitments are recognized as performed.

Certain claims, suits and allegations that arise in the ordinary course of business have been filed or are pending against the Partnership. In addition, the Partnership is a respondent in a complaint proceeding initiated at the FERC concerning rates charged for short-term sales of power to the California Independent System Operator Corporation (ISO) and the California Power Exchange (PX) for power supplied during the period of October 2, 2000 through June 20, 2001. On March 26, 2003, the FERC expanded the basis for refunds by adopting a staff recommendation from a separate investigation to change the natural gas proxy component of the mitigated market-clearing price that is used to calculate refunds. The FERC released its final instructions, and ordered the ISO and PX to recalculate the precise number through their settlement models. In August 2006, the Ninth Circuit Court of Appeals (Court of Appeals) upheld the FERC's decision not to extend the refund period and held that FERC properly excluded certain bilateral transactions from the refund proceedings. However, they also held that the FERC erred in excluding certain multi-day transactions from the refund proceedings and in not considering other remedies for tariff violations that occurred prior to October 2, 2000. The Court of Appeals remanded the matter to the FERC for further proceedings. In November 2007, the Partnership and other entities filed requests for rehearing of the Court of Appeals' August 2006 decision. In April 2009 the Ninth Circuit denied the rehearing requests. In November 2009, FERC issued an order establishing the parameters of the proceeding on remand. The remand proceeding is being held in abeyance pending FERC sponsored settlement discussions. In August 2007, the Ninth Circuit Court of Appeals issued a decision reversing and remanding FERC orders declining to provide refunds in a related proceeding regarding short-term bilateral sales up to one month in the Pacific Northwest. The court found that some of the short-term sales between the DWR and various sellers (including the Partnership) that had previously been excluded from the refund proceeding involving sales in the ISO and PX markets in California, were within the scope of the Pacific Northwest refund proceeding. In December 2007, the Partnership and other sellers filed requests for rehearing of the Court of Appeals' August 2007 decision. In April 2009 the Ninth Circuit denied the rehearing requests. On September 4, 2009, the Partnership filed in the US Supreme Court a petition for cert of the Ninth Circuit decision which was denied in January 2010. FERC has not yet issued a remand order in this matter. It is possible that on remand, the FERC could order refunds for short-term sales to the DWR in the Pacific Northwest refund proceeding.

The Partnership has reserves for its estimated refund liability that reflect its estimate of the effect of the FERC's revision of the benchmark prices it will use to calculate refunds and other refund-related developments.

In a separate complaint filed with the FERC in 2002, the California Attorney General challenged the FERC's authority to establish a market-based rate regime, and further contended that, even if such a regime were valid, electricity sellers had failed to comply with the FERC's quarterly reporting requirements. The Attorney General requested that the FERC order refunds from suppliers. The FERC dismissed the complaint and instead ordered sellers to restate their reports. After an appeal by the California Attorney General, the Ninth Circuit Court of Appeals upheld the FERC's authority to establish a market-based rate regime, but ordered remand of the case to the FERC for further proceedings, stating that failure to file transaction-specific quarterly reports gave the FERC authority to order refunds with respect to jurisdictional sellers. In December 2006, a group of sellers petitioned the United States Supreme Court to review the Ninth Circuit Court of Appeals' decision. In June 2007, the Supreme Court declined further review of the Ninth Circuit Court of Appeals' order. On March 21, 2008, FERC issued a procedural order setting the matter for further hearings before an ALJ on remand. FERC issued a clarifying order on October 6, 2008 from which the California Parties sought rehearing, which FERC denied on December 28, 2009. The California parties filed a notice of appeal of these orders with the Ninth Circuit Court of Appeals in January 2010. A hearing is scheduled at FERC for April 2010. On remand, it is possible that the FERC could order refunds or disgorgement of profits for

periods in addition to those covered by its prior refund orders and substantially increase the refunds that ultimately may be required to be paid by the Partnership and other power suppliers.

On or about May 22, 2009, the California Attorney General filed an action at FERC against various sellers of power to the CA state agency CDWR-CERS during the period Jan. 18 – June 20, 2001, including the Partnership. The complaint alleges that these sellers benefited from the improper exercise of market power and the violation of various tariffs by selling power to CERS at unjust and unreasonable prices. The complaint alleges that “Sempra,” in particular, manipulated the market. The remedies being sought from the Partnership are largely duplicative of those being sought in the proceedings described above. The Partnership filed a motion to dismiss and answer on September 3, 2009. In May 2009, the CA Parties moved FERC to consolidate and grant summary disposition of this matter and certain other matters, including those described above. The Partnership filed an answer in August 2009.

In connection with the formation of the joint venture, Sempra has agreed to indemnify RBS and the Partnership from any liability arising out of these matters.

As of December 31, 2009, the Partnership is owed approximately \$100 million from energy sales made in 2000 and 2001 through the ISO and the PX markets. The collection of these receivables depends on several factors, including the California ISO and PX refund case. The Partnership believes adequate reserves have been recorded.

In the normal course of business, the Partnership has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation. The Partnership is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and regulatory agencies regarding the Company’s business, including, among other matters, accounting and operational matters. The Partnership contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, the Partnership cannot predict with certainty the loss or range of loss, if any, related to such matters. Subject to the foregoing, the Partnership believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters should not have a material adverse effect on the consolidated financial condition of the Partnership, although the outcome of such matters could be material to the Partnership’s operating results and cash flows for a particular future period, depending on, among other things, the level of the Partnership’s revenues, income or cash flows for such period.

17. SUBSEQUENT EVENTS

On February 16, 2010, and in accordance with the restructuring measures that were previously agreed between RBS and the EC, Sempra, RBS and the Partnership entered into an agreement (the Purchase Agreement) with J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures), whereby J.P. Morgan Ventures will purchase the oil, metals and European power and gas businesses from the joint venture (the Transaction). RBSSC will retain its North American power and natural gas businesses, and its retail energy solutions business.

The Transaction is expected to close in the second quarter of 2010, and at closing, J.P. Morgan Ventures will pay an aggregate purchase price equal to the estimated book value of the businesses purchased at closing, computed on the basis of IFRS, plus an amount equal to \$468 million.

The closing is subject to several conditions which include obtaining various regulatory approvals, obtaining certain regulatory licenses, the maintenance of certain credit rating levels by J.P. Morgan Chase & Co., and the execution of certain related agreements including an agreement pursuant to which the Partnership will be providing transition services to the subject businesses following the closing.

In connection with the Transaction under the Purchase Agreement, the Partnership expects, subject to the negotiation of a definitive agreement, to amend certain provisions of the various Partnership agreements to reflect the sharing of the proceeds of and indemnities under the Transaction.

The Partnership has evaluated subsequent events for adjustment to or disclosure in its financial statements through February 22, 2010, the date the consolidated financial statements were issued. No recordable or disclosable events, other than the events as disclosed above, occurred through this date.
