

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

FORM 10-Q

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

For the quarterly period ended June 30, 1999

Commission file number 1-1402

SOUTHERN CALIFORNIA GAS COMPANY

(Exact name of registrant as specified in its charter)

California 95-1240705

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

555 West Fifth Street, Los Angeles, California 90013-1011

(Address of principal executive offices)  
(Zip Code)

(213) 244-1200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has 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) has been subject to such filing requirements for the past 90 days.

Yes  No   
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Common stock outstanding: Wholly owned by Pacific Enterprises

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

|   | Three Months Ended<br>June 30, |       |
|---|--------------------------------|-------|
|   | 1999                           | 1998  |
| Operating Revenues                                  | \$624                          | \$578 |
| Expenses:   |                                |       |
| Cost of natural gas distributed                     | 241                            | 185   |
| Operating expenses                                  | 193                            | 248   |
| Depreciation  | 65                             | 63    |
| Income taxes  | 41                             | 17    |
| Franchise payments and other taxes                  | 20                             | 24    |
| Total   | 560                            | 537   |
| Operating Income                                    | 64                             | 41    |
| Other Income and (Deductions):                      |                                |       |
| Regulatory interest - net                           | (3)                            | (3)   |
| Allowance for equity funds used during construction | 1                              | --    |
| Other - net   | 4                              | --    |
|   | -----                          | ----- |

|  |       |       |
|--|-------|-------|
| Total  | 2     | (3)   |
|  | ----- | ----- |
| Income before interest charges and preferred dividends | 66    | 38    |
| Interest Charges:                                      |       |       |
| Long-term debt   | 18    | 18    |
| Other  | 1     | 1     |
|  | ----- | ----- |
| Total  | 19    | 19    |
|  | ----- | ----- |
| Net Income   | 47    | 19    |
| Preferred Dividend Requirements                        | (1)   | --    |
|  | ----- | ----- |
| Earnings Applicable to Common Shares                   | \$ 46 | \$ 19 |
|  | ===== | ===== |

See Notes to Consolidated Financial Statements.

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

|  | Six Months Ended<br>June 30, |         |
|--|------------------------------|---------|
|  | 1999                         | 1998    |
|  | -----                        | -----   |
| Operating Revenues                                     | \$1,231                      | \$1,242 |
|  | -----                        | -----   |
| Expenses:  |                              |         |
| Cost of natural gas distributed                        | 497                          | 486     |
| Operating expenses                                     | 345                          | 411     |
| Depreciation   | 129                          | 126     |
| Income taxes   | 81                           | 56      |
| Franchise payments and other taxes                     | 45                           | 53      |
|  | -----                        | -----   |
| Total  | 1,097                        | 1,132   |
|  | -----                        | -----   |
| Operating Income                                       | 134                          | 110     |
|  | -----                        | -----   |
| Other Income and (Deductions):                         |                              |         |
| Regulatory interest - net                              | (6)                          | (3)     |
| Allowance for equity funds used during construction    | 2                            | --      |
| Income taxes on non-operating income                   | 1                            | --      |
| Other - net  | 3                            | --      |
|  | -----                        | -----   |
| Total  | --                           | (3)     |
|  | -----                        | -----   |
| Income before interest charges and preferred dividends | 134                          | 107     |
| Interest Charges:                                      |                              |         |
| Long-term debt   | 37                           | 38      |
| Other  | 3                            | 3       |
|  | -----                        | -----   |
| Total  | 40                           | 41      |
|  | -----                        | -----   |
| Net Income   | 94                           | 66      |
| Preferred Dividend Requirements                        | (1)                          | (1)     |
|  | -----                        | -----   |
| Earnings Applicable to Common Shares                   | \$ 93                        | \$ 65   |
|  | =====                        | =====   |

See notes to Consolidated Financial Statements.

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

Balance at  
-----

|                                  | June 30,<br>1999<br>(Unaudited)<br>----- | December 31,<br>1998<br>----- |
|----------------------------------|--|-------------------------------|
| <b>ASSETS:</b>                   |  |                               |
| Utility plant - at original cost | \$6,119                                  | \$6,063                       |
| Less accumulated depreciation    | (3,231)                                  | (3,111)                       |
|                                  | -----                                    | -----                         |
| Utility plant - net              | 2,888                                    | 2,952                         |
|                                  | -----                                    | -----                         |
| <b>Current Assets:</b>           |  |                               |
| Cash and cash equivalents        | 194                                      | 11                            |
| Accounts receivable              | 254                                      | 453                           |
| Due from affiliates              | 186                                      | --                            |
| Income tax receivable            | 8  | --                            |
| Deferred income taxes            | 192                                      | 157                           |
| Natural gas in storage           | 3  | 49                            |
| Materials and supplies           | 12                                       | 14                            |
| Prepaid expenses                 | 19                                       | 14                            |
|                                  | -----                                    | -----                         |
| Total current assets             | 868                                      | 698                           |
|                                  | -----                                    | -----                         |
| Regulatory and other assets      | 191                                      | 184                           |
|                                  | -----                                    | -----                         |
| Total                            | \$3,947                                  | \$3,834                       |
|                                  | =====                                    | =====                         |

See notes to Consolidated Financial Statements.

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

|  | Balance at                               |                               |
|--|--|-------------------------------|
|  | June 30,<br>1999<br>(Unaudited)<br>----- | December 31,<br>1998<br>----- |
| <b>CAPITALIZATION AND LIABILITIES</b>                |  |                               |
| <b>Capitalization:</b>                               |  |                               |
| Common stock   | \$ 835                                   | \$ 835                        |
| Retained earnings                                    | 418                                      | 525                           |
|  | -----                                    | -----                         |
| Total common equity                                  | 1,253                                    | 1,360                         |
| Preferred stock                                      | 22                                       | 22                            |
| Long-term debt                                       | 968                                      | 967                           |
|  | -----                                    | -----                         |
| Total capitalization                                 | 2,243                                    | 2,349                         |
|  | -----                                    | -----                         |
| <b>Current Liabilities:</b>                          |  |                               |
| Accounts payable - trade                             | 127                                      | 153                           |
| Accounts payable - affiliates                        | --                                       | 111                           |
| Accounts payable - other                             | 250                                      | 221                           |
| Regulatory balancing accounts<br>overcollected - net | 360                                      | 129                           |
| Other taxes payable                                  | 17                                       | 31                            |
| Accrued income taxes                                 | --                                       | 30                            |
| Interest accrued                                     | 49                                       | 46                            |
| Dividends payable                                    | 100                                      | --                            |
| Long-term debt due within one year                   | 75                                       | 75                            |
| Other  | 69                                       | 75                            |
|  | -----                                    | -----                         |
| Total current liabilities                            | 1,047                                    | 871                           |
|  | -----                                    | -----                         |
| Customer advances for construction                   | 28                                       | 31                            |
| Deferred income taxes - net                          | 366                                      | 323                           |
| Deferred investment tax credits                      | 56                                       | 58                            |
| Deferred credits and other liabilities               | 207                                      | 202                           |
|  | -----                                    | -----                         |
| Total deferred credits                               | 657                                      | 614                           |
|  | -----                                    | -----                         |

Commitments and contingent liabilities (Note 3)

|       |         |         |
|-------|---------|---------|
| Total | \$3,947 | \$3,834 |
|       | =====   | =====   |

See notes to Consolidated Financial Statements.

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

|  | Six Months Ended<br>June 30, |               |
|--|------------------------------|---------------|
|  | -----<br>1999<br>-----       | 1998<br>----- |
| <b>Cash Flows from Operating Activities:</b>   |                              |               |
| Net income   | \$ 94                        | \$ 66         |
| Adjustments to reconcile net income to<br>Net cash provided by operating activities: |                              |               |
| Depreciation   | 129                          | 126           |
| Deferred income taxes  | 42                           | 12            |
| Other - net  | (1)                          | (15)          |
| Net change in other working capital components                                       | 89                           | 481           |
|  | -----                        | -----         |
| Net cash provided by operating<br>activities   | 353                          | 670           |
|  | -----                        | -----         |
| <b>Cash Flows from Investing Activities:</b>   |                              |               |
| Capital expenditures   | (66)                         | (54)          |
| Other - net  | (4)                          | (10)          |
|  | -----                        | -----         |
| Net cash used in investing activities  | (70)                         | (64)          |
|  | -----                        | -----         |
| <b>Cash Flows from Financing Activities:</b>   |                              |               |
| Redemption of preferred stock  | --                           | (75)          |
| Issuance of long-term debt   | --                           | 75            |
| Payment on long-term debt  | --                           | (149)         |
| Decrease in short-term debt  | --                           | (305)         |
| Dividends paid   | (100)                        | (110)         |
|  | -----                        | -----         |
| Net cash used in financing<br>activities   | (100)                        | (564)         |
|  | -----                        | -----         |
| Increase in Cash and Cash Equivalents  | 183                          | 42            |
| Cash and Cash Equivalents, January 1   | 11                           | --            |
|  | -----                        | -----         |
| Cash and Cash Equivalents, June 30   | \$194                        | \$ 42         |
|  | =====                        | =====         |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                             |                              |               |
| Interest payments (net of amount capitalized)  | \$ 37                        | \$ 45         |
|  | =====                        | =====         |
| Income tax payments (net of refunds)   | \$119                        | \$ 33         |
|  | =====                        | =====         |

See notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

This Quarterly Report on Form 10-Q is that of the Southern California Gas Company (SoCalGas or the Company), the principal subsidiary of Pacific Enterprises (PE). PE is a wholly owned subsidiary of Sempra Energy, a California-based Fortune 500 energy services company. The financial statements herein are the Consolidated Financial Statements of SoCalGas and its subsidiaries.

The accompanying Consolidated Financial Statements have been prepared in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. In the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal recurring nature.

The Company's significant accounting policies, as well as those of its subsidiaries, are described in the notes to Consolidated Financial Statements in the Company's 1998 Annual Report. The same accounting policies are followed for interim reporting purposes.

This Quarterly Report should be read in conjunction with the Company's 1998 Annual Report and its Quarterly Report on Form 10-Q for the three months ended March 31, 1999. The Company's 1998 Annual Report includes the Consolidated Financial Statements and notes thereto, and "Management's Discussion & Analysis of Financial Condition and Results of Operations."

In conformity with generally accepted accounting principles, SoCalGas' accounting policies reflect the financial effects of rate regulation authorized by the California Public Utilities Commission (CPUC). SoCalGas applies the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). This statement requires cost-based rate-regulated entities that meet certain criteria to reflect the authorized recovery of costs due to regulatory decisions in their financial statements. SoCalGas continues to meet the criteria of SFAS No. 71 in accounting for its regulated operations.

## 2. BUSINESS COMBINATIONS

### PE/Enova

On June 26, 1998 (pursuant to an October 1996 agreement) Enova Corporation (Enova), the parent corporation of San Diego Gas & Electric (SDG&E), and PE completed a business combination in which the two companies became subsidiaries of a new company named Sempra Energy. As a result of the combination, (i) each outstanding share of common stock of Enova was converted into one share of common stock of Sempra Energy, (ii) each outstanding share of common stock of PE was converted into 1.5038 shares of common stock of Sempra Energy and (iii) the preferred stock and/or preference stock of SDG&E, PE and SoCalGas remain outstanding. Additional information on the business combination is discussed in the Company's 1998 Annual Report.

Expenses incurred in connection with the above were \$0.5 million, after tax, and \$32 million, after tax, for the six-month periods ended June 30, 1999 and 1998, respectively, of which \$0.2 million, after tax, and \$31 million, after tax, respectively, occurred during the three months ended June 30, 1999 and 1998.

### KN Energy

On February 22, 1999, Sempra Energy and KN Energy, Inc. (KN Energy) announced that their respective boards of directors had approved Sempra Energy's acquisition of KN Energy, subject to approval by the shareholders of both companies and by various federal and state regulatory agencies. On June 21, 1999, Sempra Energy and KN Energy announced that they had agreed to terminate the proposed acquisition.

## 3. MATERIAL CONTINGENCIES

### NATURAL GAS INDUSTRY RESTRUCTURING

The natural gas industry experienced an initial phase of restructuring during the 1980s by deregulating natural gas sales to noncore customers. On January 21, 1998, the CPUC released a staff report initiating a project to assess the current market and regulatory framework for California's natural gas industry. The general goals of the plan are to consider reforms to the current regulatory framework emphasizing market-oriented policies benefiting California's natural gas consumers.

In August 1998, California enacted a law prohibiting the CPUC from enacting any natural gas industry restructuring decision for core customers prior to January 1, 2000; the CPUC continues to study the issue. During the implementation moratorium, the CPUC will hold hearings throughout the state and intends to give the legislature a draft ruling before adopting a final market-structure policy. SDG&E and SoCalGas will actively participate in this effort.

## 4. COMPREHENSIVE INCOME

In conformity with generally accepted accounting principles, the Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." Comprehensive income for the

six-month periods ended June 30, 1999 and 1998 was equal to net income.

## 5. SEGMENT INFORMATION

The Company has two separately managed reportable segments: natural gas distribution and natural gas transmission/storage. The accounting policies of the segments are the same as those described in the notes to Consolidated Financial Statements in the Company's 1998 Annual Report, and segment performance is evaluated by management based on reported operating income. Intersegment transactions are generally recorded the same as sales or transactions with third parties. Interest expense and income tax expense are not allocated to the reportable segments. Interest revenue is included in other income on the Statements of Consolidated Income herein. It is not allocated to the reportable segments. There were no significant changes in segment assets for the six months ended June 30, 1999.

| (Dollars in millions)       | Three months ended<br>June 30, |               | Six months ended<br>June 30, |                |
|-----------------------------|--------------------------------|---------------|------------------------------|----------------|
|                             | 1999                           | 1998          | 1999                         | 1998           |
| <b>Revenues:</b>            |                                |               |                              |                |
| Distribution                | \$ 490                         | \$ 472        | \$1,007                      | \$1,027        |
| Transmission and storage    | 130                            | 106           | 232                          | 218            |
| Other                       | 4                              | --            | (8)                          | (3)            |
| <b>Total</b>                | <b>\$ 624</b>                  | <b>\$ 578</b> | <b>\$1,231</b>               | <b>\$1,242</b> |
| <b>Segment Income:</b>      |                                |               |                              |                |
| Distribution                | \$ 84                          | \$ 53         | \$ 193                       | \$ 144         |
| Transmission and storage    | 17                             | 3             | 29                           | 22             |
| All other                   | 4                              | 2             | (7)                          | --             |
| <b>Total segment income</b> | <b>105</b>                     | <b>58</b>     | <b>215</b>                   | <b>166</b>     |
| Interest expense            | (19)                           | (19)          | (40)                         | (41)           |
| Income tax expense          | (41)                           | (17)          | (80)                         | (56)           |
| Nonoperating expense        | 2                              | (3)           | (1)                          | (3)            |
| <b>Net income</b>           | <b>\$ 47</b>                   | <b>\$ 19</b>  | <b>\$ 94</b>                 | <b>\$ 66</b>   |

## ITEM 2.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements contained in this Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 1998 Annual Report.

#### INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "estimates," "believes," "expects," "anticipates," "plans" and "intends," variations of such words, and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties which could cause actual results to differ materially from those anticipated.

These statements are necessarily based upon various assumptions involving judgments with respect to the future including, among others, local, regional, national and international economic, competitive, political and regulatory conditions and developments; technological developments; capital market conditions; inflation rates; interest rates; energy markets; weather conditions; business, regulatory or legal decisions; the pace of deregulation of retail natural gas and electricity industries; the timing and success of business development efforts; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the Company. Accordingly, while the Company believes that the

assumptions are reasonable, there can be no assurance that they will approximate actual experience, or that the expectations will be realized. Readers are urged to review and consider carefully the risks, uncertainties and other factors which affect the Company's business described in this quarterly report and other reports filed by the Company from time to time with the Securities and Exchange Commission. Readers are cautioned not to put undue reliance on any forward-looking statements. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

#### BUSINESS COMBINATIONS

See Note 2 of the notes to Consolidated Financial Statements regarding the PE/Enova business combination and the agreement to terminate the KN Energy acquisition.

#### CAPITAL RESOURCES AND LIQUIDITY

The Company's utility operations continue to be a major source of liquidity. In addition, working capital requirements are met through the issuance of short-term and long-term debt. These capital resources are expected to remain available. Major changes in cash flows not described elsewhere are described below. Cash and cash equivalents at June 30, 1999 are available for investment in utility plant, the retirement of debt, and other corporate purposes.

#### CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operations decreased primarily due to payments on behalf of affiliated companies, and less overcollections on regulatory balancing accounts compared to 1998.

#### CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures for property, plant and equipment are estimated to be \$150 million for the full year 1999 and will be financed primarily by internally generated funds. These expenditures will largely represent investment in rate base. Construction, investment and financing programs are continuously reviewed and revised in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements.

#### CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities decreased primarily due to greater long-term and short-term debt repayments and the redemption of SoCalGas' preferred stock in 1998. On February 2, 1998, SoCalGas redeemed all outstanding shares of its 7-3/4% Series Preferred Stock for a total cost of \$75 million, including unpaid dividends.

#### RESULTS OF OPERATIONS

Natural gas revenues increased 7 percent for the three-month period ended June 30, 1999, compared to the same period in 1998. Natural gas revenues decreased one percent for the six-month period ended June 30, 1999 compared to the same period of 1998. The increase for the second quarter was primarily due to higher sales to residential customers due to colder weather and customer growth, and higher sales to commercial and industrial customers. The decrease for the six-month period was primarily due to a decrease in the average cost of natural gas.

Cost of natural gas distributed increased 30 percent and 2 percent for the three-month and six-month periods ended June 30, 1999 compared to the same period in 1998. The increases were due to the higher sales, affected by higher prices during the three months and lower prices during the six months. Under the current regulatory framework, changes in revenue resulting from core market changes in volumes and the cost of natural gas do not affect net income.

Utility operating expenses decreased 22 percent and 16 percent for the three-month and six-month periods ended June 30, 1999 compared to the same period in 1998 primarily due to lower business-combination costs and a continuing emphasis on reducing operating costs to remain competitive in the marketplace.

The table below summarizes the components of natural gas volumes and revenues by customer class for the six months ended June 30, 1999 and 1998.

Gas Sales, Transportation & Exchange  
(Dollars in millions, volumes in billion cubic feet)

|                              | Gas Sales  |         | Transportation & Exchange |         | Total      |         |
|------------------------------|------------|---------|---------------------------|---------|------------|---------|
|                              | Throughput | Revenue | Throughput                | Revenue | Throughput | Revenue |
| 1999:                        |            |         |                           |         |            |         |
| Residential                  | 162        | \$1,017 | 1                         | \$ 4    | 162        | \$1,021 |
| Commercial and industrial    | 46         | 241     | 152                       | 122     | 198        | 363     |
| Utility electric generation  | --         | --      | 49                        | 20      | 49         | 20      |
| Wholesale                    | --         | --      | 80                        | 28      | 80         | 28      |
|                              | 208        | \$1,258 | 282                       | \$174   | 489        | \$1,432 |
| Balancing accounts and other |            |         |                           |         |            | (201)   |
| Total                        |            |         |                           |         |            | \$1,231 |
| 1998:                        |            |         |                           |         |            |         |
| Residential                  | 154        | \$1,153 | 2                         | \$ 7    | 156        | \$1,160 |
| Commercial and industrial    | 43         | 259     | 157                       | 136     | 200        | 395     |
| Utility electric generation  | --         | --      | 40                        | 20      | 40         | 20      |
| Wholesale                    | --         | --      | 77                        | 30      | 77         | 30      |
|                              | 197        | \$1,412 | 276                       | \$193   | 473        | 1,605   |
| Balancing accounts and other |            |         |                           |         |            | (363)   |
| Total                        |            |         |                           |         |            | \$1,242 |

YEAR 2000 ISSUES

Most companies are affected by the inability of many automated systems and applications to process the year 2000 and beyond. The Year 2000 issues are the result of computer programs and other automated processes using two digits to identify a year, rather than four digits. Any of the Company's computer programs that include date-sensitive software may recognize a date using "00" as representing the year 1900, instead of the year 2000, or "01" as 1901, etc., which could lead to system malfunctions. The Year 2000 issue impacts both Information Technology ("IT") systems and also non-IT systems, including systems incorporating embedded processors. To address this problem, in 1996, both Pacific Enterprises and Enova Corporation established company-wide Year 2000 programs. These programs have now been consolidated into Sempra Energy's overall Year 2000 readiness effort. Sempra Energy has established a central Year 2000 Program Office, which reports to the Company's Chief Information Technology Officer and reports periodically to the audit committee of the Board of Directors.

The Company's State of Readiness

Sempra Energy has identified all significant IT and non-IT systems (including embedded systems) that might not be Year 2000 ready and categorizing them in the following areas: IT applications, computer hardware and software infrastructure, telecommunications, embedded systems, and third parties. The Company evaluated its exposure in all of these areas. These systems and applications are being tracked and measured through four key phases: inventory, assessment, remediation/testing, and Year 2000 readiness. The Company has prioritized so that, when possible, critical systems are being assessed and modified/replaced first. Critical systems are those applications and systems, including embedded processor technology, which, if not appropriately remediated, may have a significant impact on energy delivery, revenue collection or the safety of personnel, customers or facilities. The Company's Year 2000 testing effort includes functional testing of Year 2000 dates and validating that changes have not altered existing functionality. The Company uses an independent, internal review process to verify that the appropriate testing has occurred.

The Company's Year 2000 project is currently on schedule, with critical energy delivery systems for both SoCalGas and SDG&E Year



2000 Ready as of June 30, 1999. The Company defines "Year 2000 Ready" as suitable for continued use into the year 2000 with no significant operational problems.

Sempra Energy's current schedule for Year 2000 testing and readiness for non-critical systems is to be completed by the fourth quarter of 1999. In certain cases, this schedule is dependent upon the efforts of third parties, such as suppliers (including energy producers) and customers. Accordingly, delays by third parties may cause the Company's schedule to change. In addition, a continued readiness management process has been implemented to monitor and review the progress of Year 2000 readiness of the Company's systems.

#### The Costs to Address the Company's Year 2000 Issues

Sempra Energy's budget for the Year 2000 program is \$48 million, of which \$43 million has been spent. As the Company continues to assess its systems and as the remediation and testing efforts progress, cost estimates may change. The Company's Year 2000 readiness effort is being funded entirely by operating cash flows.

#### The Risks of the Company's Year 2000 Issues

Based upon its current assessment and testing of the Year 2000 issue, the Company believes the reasonably likely worst case Year 2000 scenarios to have the following impacts upon Sempra Energy and its operations. With respect to the Company's ability to provide energy to its domestic utility customers, the Company believes that the reasonably likely worst case scenario is for small, localized interruptions of utility service which are restored in a time frame that is within normal service levels. With respect to services that are essential to Sempra Energy's operations, such as customer service, business operations, supplies and emergency response capabilities, the scenario is for minor disruptions of essential services with rapid recovery and all essential information and processes ultimately recovered.

To assist in preparing for and mitigating these possible scenarios, Sempra Energy is a member of several industry-wide efforts established to deal with Year 2000 problems affecting embedded systems and equipment used by the nation's natural gas and electric power companies. Under these efforts, participating utilities are working together to assess specific vendors' system problems and to test plans. These assessments will be shared by the industry as a whole to facilitate Year 2000 problem solving.

A portion of this risk is due to the various Year 2000 Ready schedules of critical third party suppliers and customers. The Company continues to contact its critical suppliers and customers to survey their Year 2000 remediation programs. While risks related to the lack of Year 2000 readiness by third parties could materially and adversely affect the Company's business, results of operations and financial condition, the Company expects its Year 2000 readiness efforts to reduce significantly the Company's level of uncertainty about the impact of third party Year 2000 issues on both its IT systems and its non-IT systems.

#### The Company's Contingency Plans

The Company's contingency plans for Year-2000-related interruptions have been completed and were submitted to the CPUC on July 1, 1999. These plans will continue to be revised and improved during the remainder of 1999. The contingency plans include emergency backup and recovery procedures, replacing electronic applications with manual processes, and identification of alternate suppliers along with increasing inventory levels. In addition, the following key contingency actions will be taken.

- -- Only critical system changes will be implemented during December 1999 and January 2000.
- -- An hour-by-hour plan will be developed to cover key contingency actions.
- -- On-site staffing will be in place at key operational and administrative locations.
- -- Designated standby staff will be on-call with thirty-minute availability.
- -- Emergency Operations Centers will be activated on December 31, 1999.
- -- Walk-through drills will be held during the fourth quarter of 1999.

Due to the speculative and uncertain nature of contingency planning, there can be no assurances that such plans actually will be sufficient to reduce the risk of material impacts on the Company's operations due to Year 2000 issues.

#### FACTORS INFLUENCING FUTURE PERFORMANCE

Because of the ratemaking and regulatory process, electric and natural gas industry restructuring, and the changing energy marketplace, there are several factors that will influence the Company's future financial performance. These factors are discussed in this section below.

##### Industry Restructuring

See discussion of industry restructuring in Note 3 of the notes to Consolidated Financial Statements.

##### Performance-Based Regulation (PBR)

To promote efficient operations and improved productivity and to move away from reasonableness reviews and disallowances, the CPUC has been directing utilities to use PBR. PBR has replaced the general rate case and certain other regulatory proceedings for both SoCalGas and SDG&E. Under PBR, regulators require future income potential to be tied to achieving or exceeding specific performance and productivity goals, as well as cost reductions, rather than relying solely on expanding utility rate base in a market where a utility already has a highly developed infrastructure.

SoCalGas' PBR is in effect through December 31, 2002; however, the CPUC decision allows for the possibility that changes to the PBR mechanism could be adopted in a decision to be issued in SoCalGas' 1999 Biennial Cost Allocation Proceeding (BCAP) application which is anticipated to become effective at year-end 1999.

##### Cost of Capital

Under PBR, annual Cost of Capital proceedings were replaced by an automatic adjustment mechanism if changes in certain indices exceed established tolerances. For 1999, SoCalGas is authorized to earn a rate of return on common equity (ROE) of 11.6 percent and a 9.49 percent return on rate base (ROR), unchanged from 1998.

##### Annual Earnings Assessment Proceeding

An application was filed in May 1999 to recover shareholder rewards for the Demand Side Management (DSM) programs and incentives earned for its energy-efficiency and low-income programs totaling \$5 million. The revenue requirement increase is proposed to become effective on January 1, 2000. The DSM rewards and low-income program incentives will be collected and recorded in earnings over ten years. The energy-efficiency program incentives are recovered in one year. Rewards and incentives for these programs are subject to CPUC approval.

The CPUC has extended interim utility administration of energy-efficiency and low-income programs through December 31, 2001.

##### Biennial Cost Allocation Proceeding (BCAP)

The BCAP determines how a utility's costs are allocated among various customer classes (residential, commercial, industrial, etc.). SoCalGas filed the 1999 BCAP application in October 1998, with hearings held during the first half of 1999. At the conclusion of hearings, a joint BCAP recommendation was reached proposing, among other things, an overall natural gas rate reduction of \$229 million for SoCalGas. A CPUC decision is expected in early 2000.

#### PART II - OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

Except for the matters referred to in the Company's 1998 Annual Report or referred to elsewhere in this Quarterly Report on Form 10-Q for the six months ended June 30, 1999, neither the Company nor any of its affiliates is a party to, nor is its property the subject of, any material pending legal proceedings other than routine litigation incidental to its businesses.

##### ITEM 4. SUBMISSION OF MATTERS TO VOTE

At the annual meeting on May 11, 1999, the Company's shareholders elected 15 directors to hold office until the next annual meeting and until their successors have been elected and qualified. The name of each nominee and the number of shares voted for or withheld were as follows:

| Nominees                | Votes For  | Votes Withheld |
|-------------------------|------------|----------------|
| Hyla H. Berteau         | 91,350,677 | --             |
| Ann L. Burr             | 91,350,677 | --             |
| Herbert L. Carter       | 91,350,677 | --             |
| Richard A. Collato      | 91,350,677 | --             |
| Daniel W. Derbes        | 91,350,677 | --             |
| Wilford D. Godbold, Jr. | 91,350,677 | --             |
| Robert H. Goldsmith     | 91,350,677 | --             |
| William D. Jones        | 91,350,677 | --             |
| Ignacio E. Lozano, Jr.  | 91,350,677 | --             |
| Warren I. Mitchell      | 91,350,677 | --             |
| Ralph R. Ocampo         | 91,350,677 | --             |
| William G. Ouchi        | 91,350,677 | --             |
| Richard J. Stegemeier   | 91,350,677 | --             |
| Thomas C. Stickel       | 91,350,677 | --             |
| Diana L. Walker         | 91,350,677 | --             |

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 27 - Financial Data Schedules

27.1 Financial Data Schedule for the six months ended June 30, 1999.

(b) Reports on Form 8-K

None.

SIGNATURE

Pursuant to the requirements 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

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(Registrant)

By: /s/ Warren Mitchell

Date: August 12, 1999

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Warren Mitchell  
Chairman and President

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION  
EXTRACTED FROM THE CONDENSED STATEMENT OF CONSOLIDATED INCOME,  
BALANCE SHEET AND CASH FLOWS AND IS QUALIFIED IN ITS ENTIRETY BY  
REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000092108

SOUTHERN CALIFORNIA GAS COMPANY

1,000,000

| 6-MOS | DEC-31-1999 | JUN-30-1999 | PER-BOOK |
|-------|-------------|-------------|----------|
|       | 2,888       |             |          |
|       | 0           |             |          |
|       | 868         |             |          |
|       | 191         |             |          |
|       |             | 0           |          |
|       |             | 3,947       |          |
|       |             |             | 835      |
|       | 0           |             |          |
|       | 418         |             |          |
| 1,253 |             |             |          |
|       | 0           |             |          |
|       |             |             | 22       |
|       | 968         |             |          |
|       | 0           |             |          |
|       | 0           |             |          |
|       | 75          |             |          |
|       | 0           |             |          |
|       | 0           |             |          |
|       |             |             | 0        |
| 1,629 |             |             |          |
| 3,947 |             |             |          |
|       | 1,231       |             |          |
|       |             | 81          |          |
|       | 1,016       |             |          |
|       | 1,097       |             |          |
|       |             |             | 0        |
|       | 134         |             |          |
| 134   |             |             |          |
|       | 40          |             |          |
|       |             |             | 94       |
|       | 1           |             |          |
| 93    |             |             |          |
|       | 200         |             |          |
|       | 0           |             |          |
|       | 353         |             |          |
|       |             |             | 0        |
|       |             |             | 0        |