

SEMPRA ENERGY
Form 10-Q
August 04, 2016

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO
SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

or

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

Exact Name of Registrants as Specified in their Charters, Address and Telephone Number	I.R.S. States of Incorporation	Employer Identification Nos.	Former name, former address and former fiscal year, if changed since last report No change
1-14201 SEMPRA ENERGY 488 8 th Avenue San Diego, California	California	33-0732627	

92101
(619)696-2000

1-03779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California95-1184800	No change
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1-01402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (213)244-1200	California95-1240705	No change
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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes X No

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

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

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

the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
Sempra Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
San Diego Gas & Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Southern California Gas Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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

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

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

Common stock outstanding on July 29, 2016:

Sempra Energy	249,801,432 shares
San Diego Gas & Electric Company	Wholly owned by Enova Corporation, which is wholly owned by Sempra Energy
Southern California Gas Company	Wholly owned by Pacific Enterprises, which is wholly owned by Sempra Energy

SEMPRA ENERGY FORM 10-Q
 SAN DIEGO GAS & ELECTRIC COMPANY FORM 10-Q
 SOUTHERN CALIFORNIA GAS COMPANY FORM 10-Q
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This combined Form 10-Q is separately filed by Sempra Energy, San Diego Gas & Electric Company and Southern California Gas Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes representations only as to itself and makes no other representation whatsoever as to any other company.

You should read this report in its entirety as it pertains to each respective reporting company. No one section of the report deals with all aspects of the subject matter. Separate Part I – Item 1 sections are provided for each reporting company, except for the Notes to Condensed Consolidated Financial Statements. The Notes to Condensed Consolidated Financial Statements for all of the reporting companies are combined. All Items other than Part I – Item 1 are combined for the reporting companies.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

In this report, when we use words such as "believes," "expects," "anticipates," "plans," "estimates," "projects," "forecasts," "contemplates," "intends," "assumes," "depends," "should," "could," "would," "will," "confident," "may," "potential," "possible," "proposed," "target," "pursue," "goals," "outlook," "maintain," or similar expressions, or when we discuss our guidance, strategy, plans, goals, opportunities, projections, initiatives, objectives or intentions, we are making forward-looking statements.

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

- § local, regional, national and international economic, competitive, political, legislative, legal and regulatory conditions, decisions and developments;
- actions and the timing of actions, including general rate case decisions, new regulations, issuances of permits to construct, operate, and maintain facilities and equipment and to use land, franchise agreements and licenses for operation, by the California Public Utilities Commission, California State Legislature, U.S. Department of Energy, California Division of Oil, Gas, and Geothermal Resources, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, California Energy Commission, U.S. Environmental Protection Agency, Pipeline and Hazardous Materials Safety Administration, California Air Resources Board, South Coast Air Quality Management District, Los Angeles County Department of Public Health, Mexican Competition Commission, states, cities and counties, and other regulatory and governmental bodies in the countries in which we operate;
- § the timing and success of business development efforts and construction, maintenance and capital projects, including risks in obtaining, maintaining or extending permits, licenses, certificates and other authorizations on a timely basis,
- § risks in obtaining the consent of our partners, and risks in obtaining adequate and competitive financing for such projects;
- § the resolution of civil and criminal litigation and regulatory investigations;

deviations from regulatory precedent or practice that result in a reallocation of benefits or burdens among § shareholders and ratepayers, and delays in, or disallowance or denial of, regulatory agency authorization to recover costs in rates from customers;

the availability of electric power, natural gas and liquefied natural gas, and natural gas pipeline and storage capacity, § including disruptions caused by failures in the North American transmission grid, moratoriums on the ability to withdraw natural gas from or inject natural gas into storage facilities, pipeline explosions and equipment failures; energy markets; the timing and extent of changes and volatility in commodity prices; and the impact on the value of § our natural gas storage and related assets and our investments from low natural gas prices, low volatility of natural gas prices and the inability to procure favorable long-term contracts for natural gas storage services;

risks posed by decisions and actions of third parties who control the operations of investments in which we do not § have a controlling interest, and risks that our partners or counterparties will be unable (due to liquidity issues, bankruptcy or otherwise) or unwilling to fulfill their contractual commitments;

weather conditions, natural disasters, catastrophic accidents, equipment failures, terrorist attacks and other events that may disrupt our operations, damage our facilities and systems, cause the release of greenhouse gasses, § radioactive materials and harmful emissions, and subject us to third-party liability for property damage or personal injuries, fines and penalties, some of which may not be covered by insurance (including costs in excess of applicable policy limits) or may be disputed by insurers;

cybersecurity threats to the energy grid, natural gas storage and pipeline infrastructure, the information and systems § used to operate our businesses and the confidentiality of our proprietary information and the personal information of our customers and employees;

§ failure to obtain regulatory approval for projects required to enhance safety and reliability;

§ the ability to win competitively bid infrastructure projects against a number of strong competitors willing to aggressively bid for these projects;

§ capital markets conditions, including the availability of credit and the liquidity of our investments, and inflation, interest and currency exchange rates;

§ disallowance of regulatory assets associated with, or decommissioning costs of, the San Onofre Nuclear Generating Station facility due to increased regulatory oversight, including motions to modify settlements;

§ expropriation of assets by foreign governments and title and other property disputes;

the impact on reliability of San Diego Gas & Electric Company's (SDG&E) electric transmission and distribution § system due to increased amount and variability of power supply from renewable energy sources and increased reliance on natural gas and natural gas transmission systems;

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

§ the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements due to insufficient market interest, unattractive pricing or other factors; and

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

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described herein and in our most recent Annual Report on Form 10-K and other reports that we file with the Securities and Exchange Commission.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SEMPRA
ENERGY
CONDENSED CONSOLIDATED
STATEMENTS OF OPERATIONS

(Dollars
in
millions,
except
per
share
amounts)

	Three months ended June 30, 2016		Six months ended June 30, 2016	
	2015	2016	2015	2016
	(unaudited)			
REVENUES				
Utilities	\$2,133	\$1,994	\$4,436	\$4,555
Energy-related businesses	234	162	342	494
Total revenues	2,367	2,156	4,778	5,049
EXPENSES AND OTHER INCOME				
Utilities:				
Cost of natural gas	(239)	(183)	(494)	(585)
Cost of electric fuel and purchased power	(498)	(561)	(1,076)	(979)
Energy-related businesses:				
Cost of natural gas, electric fuel and purchased power	(73)	(62)	(118)	(171)
Other cost of sales Operation and maintenance	(713)	(727)	(1,428)	(1,371)

Depreciation and amortization	(314)	(307)	(642)	(610)
Franchise fees and other taxes	(96)	(96)	(207)	(203)
Plant closure adjustment				21
Gain on sale of assets	62			62
Equity earnings (losses), before income tax	14	27	(8)	46
Other income, net	37	37	72	76
Interest income	6	10	12	17
Interest expense (Loss)	(142)	(139)	(285)	(273)
income before income taxes and equity earnings of certain unconsolidated subsidiaries	(112)	396	343	1,002
Income tax benefit (expense)	106	(98)	(36)	(261)
Equity earnings, net of income tax	33	22	50	37

Net income	320	357	778
Earnings attributable to noncontrolling interests	(24)	(21)	(45)
Preferred dividends of subsidiary	(1)	(1)	(1)
Earnings	\$295	\$335	\$732
Basic earnings per common share	\$1.19	\$1.34	\$2.95
Weighted-average number of shares outstanding, basic (thousands)	250,096	248,108	249,915
Diluted earnings per common share	\$1.17	\$1.33	\$2.91
Weighted-average number of shares outstanding, diluted (thousands)	251,938	251,491	251,686
Dividends declared per share of common stock	\$0.75	\$0.70	\$1.40
See Notes to Condensed Consolidated			

Financial
Statements.SEMPRA ENERGY
CONDENSED CONSOLIDATED
STATEMENTS OF COMPREHENSIVE
INCOME (LOSS)

(Dollars in millions)

Sempra Energy
shareholders' equity

Pretax amount	Income tax benefit (expense)	Net-of-tax amount	Noncontrolling interests (after-tax)	Total
------------------	---------------------------------------	----------------------	--	-------

Three months ended June 30, 2016 and 2015
(unaudited)

2016:

Net income	(16)	\$ 106	\$ 17	\$ 10	\$ 27
Other comprehensive income (loss):					
Foreign currency translation adjustments	11		11		11
Financial instruments	(78)	35	(43)	1	(42)
Pension and other postretirement benefits	2	(1)	1		1
Total other comprehensive income (loss)	(65)	34	(31)	1	(30)
Comprehensive income	(49)	140	(14)	11	(3)
Preferred dividends of subsidiary	(1)		(1)		(1)
Comprehensive income,					

after preferred dividends of	(\$155)	\$ 140	\$ (15)	\$ 11	\$(4)
subsidiary 2015:					
Net income	\$394	\$ (98)	\$ 296	\$ 24	\$320
Other comprehensive income (loss):					
Foreign currency translation adjustments	(43)		(43)	(5)	(48)
Financial instruments	95	(36)	59	6	65
Pension and other postretirement benefits	(1)		1		1
Total other comprehensive income	54	(37)	17	1	18
Comprehensive income	448	(135)	313	25	338
Preferred dividends of subsidiary	(1)		(1)		(1)
Comprehensive income, after preferred dividends of	\$447	\$ (135)	\$ 312	\$ 25	\$337
subsidiary					

Six months ended June 30, 2016
and 2015
(unaudited)

2016:					
Net income	\$372	\$(36)	\$336	\$21	\$357
Other comprehensive income					

(loss):				
Foreign				
currency				
translation	79	5	84	
adjustments				
Financial				
instruments	(237)	110	(127)	(4)
(131)				
Pension				
and				
other	(2)	2		2
postretirement				
benefits				
Total				
other				
comprehensive	(54)	108	(46)	1
(loss)				
income				
Comprehensive	218	72	290	22
income				
Preferred				
dividends	(1)		(1)	
of				
subsidiary				
Comprehensive				
income,				
after				
preferred				
dividends				
of	\$217	\$72	\$289	\$22
subsidiary				
2015:				
Net	\$994	\$(261)	\$733	\$45
income				
Other				
comprehensive				
income				
(loss):				
Foreign				
currency				
translation	(105)	(13)	(118)	
adjustments				
Financial				
instruments	(6)	2	4	1
5				
Pension				
and				
other	(2)	2		2
postretirement				
benefits				
Total	(4)	(99)	(12)	(111)
other				
comprehensive				

loss
 Comprehensive
 income 899 (265) 634 33 667
 Preferred
 dividends
 of (1) (1) (1)
 subsidiary
 Comprehensive
 income,
 after
 preferred
 dividends
 of \$898 \$(265) \$633 \$33 \$666
 subsidiary
 See Notes to Condensed
 Consolidated Financial Statements.

SEMPRA ENERGY
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Dollars in millions)

	June 30, 2016 (unaudited)	December 31, 2015(1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 616	\$403
Restricted cash	17	27
Accounts receivable – trade, net	994	1,283
Accounts receivable – other	140	190
Due from unconsolidated affiliates	6	6
Income taxes receivable	36	30
Inventories	270	298
Regulatory balancing accounts – undercollected	336	307
Fixed-price contracts and other derivatives	65	80
Assets held for sale	654	
Other	207	267
Total current assets	3,341	2,891
Other assets:		
Restricted cash	18	20
Due from unconsolidated affiliates	192	186
Regulatory assets	3,353	3,273
Nuclear decommissioning trusts	1,103	1,063
Investments	2,267	2,905
Goodwill	786	819

Other intangible assets	399	404
Dedicated assets in support of certain benefit plans	436	464
Insurance receivable for Aliso Canyon costs	679	325
Sundry	806	761
Total other assets	10,039	10,220
Property, plant and equipment:		
Property, plant and equipment	39,756	38,200
Less accumulated depreciation and amortization	(10,261)	(10,161)
Property, plant and equipment, net (\$372 and \$383 at June 30, 2016 and December 31, 2015, respectively, related to VIE)	29,495	28,039
Total assets	\$ 42,875	\$ 41,150

(1) Derived from audited financial statements.
See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2016 (unaudited)	December 31, 2015(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 1,777	\$ 622
Accounts payable – trade	1,140	1,133
Accounts payable – other	101	142
Due to unconsolidated affiliates	8	14
Dividends and interest payable	314	303
Accrued compensation and benefits	289	423
Regulatory balancing accounts – overcollected	120	34
Current portion of long-term debt	907	907
Fixed-price contracts and other derivatives	54	56
Customer deposits	150	153
Reserve for Aliso Canyon costs	117	274
Liabilities held for sale	222	
Other	481	551
Total current liabilities	5,680	4,612
Long-term debt (\$298 and \$303 at June 30, 2016 and December 31, 2015, respectively, related to VIE)	13,178	13,134

Deferred credits and other liabilities:		
Customer advances for construction	152	149
Pension and other postretirement benefit plan obligations, net of plan assets	1,171	1,152
Deferred income taxes	3,071	3,157
Deferred investment tax credits	32	32
Regulatory liabilities arising from removal obligations	2,891	2,793
Asset retirement obligations	2,491	2,126
Fixed-price contracts and other derivatives	262	240
Deferred credits and other	1,384	1,176
Total deferred credits and other liabilities	11,454	10,825

Commitments and contingencies (Note 11)

Equity:

Preferred stock (50 million shares authorized; none issued)		
Common stock (750 million shares authorized; 250 million and 248 million shares outstanding at June 30, 2016 and December 31, 2015, respectively; no par value)	2,681	2,621
Retained earnings	9,952	9,994
Accumulated other comprehensive income (loss)	(852)	(806)
Total Sempra Energy shareholders' equity	11,781	11,809
Preferred stock of subsidiary	20	20
Other noncontrolling interests	762	750
Total equity	12,563	12,579
Total liabilities and equity	\$ 42,875	\$ 41,150

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SEMPRA
ENERGY
CONDENSED
CONSOLIDATED
STATEMENTS OF
CASH FLOWS

(Dollars in millions)

Six months ended
June 30,
2016 2015
(unaudited)

CASH
 FLOWS
 FROM
 OPERATING
 ACTIVITIES

Net
 \$357 \$778
 income

Adjustments
 to
 reconcile
 net
 income
 to
 net
 cash
 provided
 by
 operating
 activities:

Depreciation
 and 642 610
 amortization

Deferred
 income
 taxes
 and (42) 203
 investment
 tax
 credits

Gain
 on
 sale (62)
 of
 assets

Plant
 closure (21)
 adjustment

Equity
 (42) (83)
 earnings

Fixed-price
 contracts
 and 41
 other
 derivatives

33 Other (8)

~~67~~ (116)

change
 in
 other
 working
 capital

components

Insurance

receivable

for (354)

Aliso

Canyon

costs

Changes

in (67) (89)

other

assets

Changes

in 147 7

other

liabilities

Net

cash

provided 882 1,219

by

operating

activities

CASH

FLOWS

FROM

INVESTING

ACTIVITIES

Expenditures

for

property (2,006) (1,466)

plant

and

equipment

Expenditures

for

investments

and (46) (161)

acquisition

of

business

Proceeds

from

sales 443 347

of

assets

Distributions

from 2 9

investments

Revenues (229)

of

nuclear

decommissioning
and
other
trust
assets
 Proceeds
from
sales
by
nuclear 221
decommissioning
and
other
trusts
 Increases
in (32) (34)
restricted
cash
 Decreases
in 44 49
restricted
cash
 Advances
to (9) (20)
unconsolidated
affiliates
 Repayments
of
advances 9 74
to
unconsolidated
affiliates
 Other 9
Net
cash
used
in (1,593) (1,201)
investing
activities

CASH
FLOWS
FROM
FINANCING
ACTIVITIES

Common
dividends (35) (308)
paid
 Referred (1)
dividends
paid

by
 subsidiary
 Issuances
 of 29 31
 common
 stock
 Repurchases
 of (54) (66)
 common
 stock
 Issuances
 of
 debt
 (maturities
 1,384 1,547
 greater
 than
 90
 days)
 Payments
 on
 debt
 (maturities
 986) (846)
 greater
 than
 90
 days)
 Increase
 (decrease)
 in 865 (339)
 short-term
 debt,
 net
 Net
 distributions
 to (10) (14)
 noncontrolling
 interests
 Tax
 benefit
 related
 to 34 52
 share-based
 compensation
 0 10 (6)
 Net
 cash
 provided
 by 916 50
 financing
 activities

Effect
of
exchange
rate
changes
on
cash
and
cash
equivalents

8 (2)

Increase
in
cash
and
cash
equivalents

213 66

Cash
and
cash
equivalents,
January
1

403 570

Cash
and
cash
equivalents,
June
30

\$616 \$636

See
Notes
to
Condensed
Consolidated
Financial
Statements.

SEMPRA
ENERGY
CONDENSED
CONSOLIDATED
STATEMENTS OF
CASH FLOWS
(CONTINUED)

(Dollars in
millions)

Six months
ended June 30,

2016 2015
 (unaudited)
 SUPPLEMENTAL
 DISCLOSURE
 OF
 CASH
 FLOW
 INFORMATION

Interest payments, net of amounts capitalized	\$ 279	\$ 260
Income tax payments, net of refunds	73	72

SUPPLEMENTAL
 DISCLOSURE
 OF
 NONCASH
 INVESTING
 AND
 FINANCING
 ACTIVITIES

Acquisition of business:		
Assets acquired	\$ 10	
Liabilities assumed	(2)	
Accrued purchase price	(6)	
Cash paid	\$ 2	

Accrued capital expenditures	\$ 541	\$ 302
Financing of build-to-suit property	39	
Redemption of	79	

industrial
development
bonds
Common
dividends
issued 27
in
stock
Dividends
declared
but 195 178
not
paid
See Notes to
Condensed
Consolidated
Financial
Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)			
Operating revenues				
Electric	\$897	\$874	\$1,740	\$1,679
Natural gas	95	98	243	259
Total operating revenues	992	972	1,983	1,938
Operating expenses				
Cost of electric fuel and purchased power	314	251	562	479
Cost of natural gas	25	31	64	85
Operation and maintenance	266	255	512	472
Depreciation and amortization	158	149	317	294
Franchise fees and other taxes	59	59	122	120
Plant closure adjustment				(21)
Total operating expenses	822	745	1,577	1,429
Operating income	170	227	406	509
Other income, net	13	9	27	18
Interest expense	(48)	(52)	(96)	(104)
Income before income taxes	135	184	337	423
Income tax expense	(48)	(54)	(120)	(142)
Net income	87	130	217	281
Losses (earnings) attributable to noncontrolling interest	13	(4)	12	(8)

Earnings attributable to common shares \$100 \$126 \$229 \$273
See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME (LOSS)

(Dollars in millions)

	SDG&E shareholder's equity				
	Pretax amount	Income tax expense	Net-of-tax amount	Noncontrolling interest (after-tax)	Total
Three months ended June 30, 2016 and 2015 (unaudited)					
2016:					
Net income (loss)	\$148	\$ (48)	\$ 100	\$ (13)	\$87
Other comprehensive income (loss):					
Financial instruments				1	1
Total other comprehensive income				1	1
Comprehensive income (loss)	\$148	\$ (48)	\$ 100	\$ (12)	\$88
2015:					
Net income	\$180	\$ (54)	\$ 126	\$ 4	\$130
Other comprehensive income (loss):					
Financial instruments				3	3
Total other comprehensive income				3	3
Comprehensive income	\$180	\$ (54)	\$ 126	\$ 7	\$133
Six months ended June 30, 2016 and 2015 (unaudited)					
2016:					
Net income (loss)	\$349	\$(120)	\$229	\$(12)	\$217
Other comprehensive income (loss):					
Financial instruments			(1)	(1)	
Total other comprehensive loss			(1)	(1)	
Comprehensive income (loss)	\$349	\$(120)	\$229	\$(13)	\$216
2015:					
Net income	\$415	\$(142)	\$273	\$8	\$281
Other comprehensive income (loss):					
Financial instruments			1	1	
Total other comprehensive income			1	1	
Comprehensive income	\$415	\$(142)	\$273	\$9	\$282

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	June 30, 2016 (unaudited)	December 31, 2015(1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8	\$ 20
Restricted cash	17	23
Accounts receivable – trade, net	310	331
Accounts receivable – other	14	17
Due from unconsolidated affiliates	163	1
Income taxes receivable	33	1
Inventories	71	75
Regulatory balancing accounts – net undercollected	336	307
Regulatory assets	93	107
Fixed-price contracts and other derivatives	39	53
Other	42	69
Total current assets	1,126	1,004
Other assets:		
Restricted cash	3	
Deferred taxes recoverable in rates	938	914
Other regulatory assets	933	977
Nuclear decommissioning trusts	1,103	1,063
Sundry	335	301
Total other assets	3,312	3,255
Property, plant and equipment:		
Property, plant and equipment	17,000	16,458
Less accumulated depreciation and amortization	(4,399)	(4,202)
Property, plant and equipment, net (\$372 and \$383 at June 30, 2016 and December 31, 2015, respectively, related to VIE)	12,601	12,256
Total assets	\$ 17,039	\$ 16,515

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated
Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(CONTINUED)

(Dollars in millions)

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	June 30, 2016 (unaudited)	December 31, 2015(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 54	\$ 168
Accounts payable	375	377
Due to unconsolidated affiliates	190	55
Interest payable	40	39
Accrued compensation and benefits	77	129
Accrued franchise fees	31	66
Current portion of long-term debt	191	50
Asset retirement obligations	63	99
Fixed-price contracts and other derivatives	37	51
Customer deposits	72	72
Other	88	101
Total current liabilities	1,218	1,207
Long-term debt (\$298 and \$303 at June 30, 2016 and December 31, 2015, respectively, related to VIE)	4,681	4,455
Deferred credits and other liabilities:		
Customer advances for construction	50	46
Pension and other postretirement benefit plan obligations, net of plan assets	221	212
Deferred income taxes	2,523	2,472
Deferred investment tax credits	20	19
Regulatory liabilities arising from removal obligations	1,743	1,629
Asset retirement obligations	765	729
Fixed-price contracts and other derivatives	98	106
Deferred credits and other	406	364
Total deferred credits and other liabilities	5,826	5,577
Commitments and contingencies (Note 11)		
Equity:		
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)	1,338	1,338
Retained earnings	3,947	3,893
Accumulated other comprehensive income (loss)	(8)	(8)
Total SDG&E shareholder's equity	5,277	5,223
Noncontrolling interest	37	53
Total equity	5,314	5,276
Total liabilities and equity	\$ 17,039	\$ 16,515

(1) Derived from audited financial statements.
See Notes to Condensed Consolidated
Financial Statements.

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

	Six months ended June 30, 2016 2015 (unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$217	\$281
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	317	294
Deferred income taxes and investment tax credits	26	103
Plant closure adjustment		(21)
Fixed-price contracts and other derivatives	(1)	(2)
Other	(21)	(9)
Net change in other working capital components		(40)
Changes in other assets	(39)	(59)
Changes in other liabilities	9	3
Net cash provided by operating activities	508	550
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(602)	(600)
Purchases of nuclear decommissioning trust assets	(203)	(227)
Proceeds from sales by nuclear decommissioning trusts	204	221
Increases in restricted cash	(21)	(19)
Decreases in restricted cash	24	19
Increase in loans to affiliate	(172)	
Net cash used in investing activities	(770)	(606)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuances of debt (maturities greater than 90 days)	498	388
Payments on debt (maturities greater than 90 days)	(128)	(105)
Decrease in short-term debt, net	(114)	(206)
Capital distributions made by VIE	(3)	(6)
Other	(3)	
Net cash provided by financing activities	250	71
(Decrease) increase in cash and cash equivalents	(12)	15
Cash and cash equivalents, January 1	20	8
Cash and cash equivalents, June 30	\$8	\$23
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	\$92	\$99
Income tax payments, net	125	99
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		

Dividends declared but not paid	\$175	\$
Accrued capital expenditures	124	118

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)			
Operating revenues	\$617	\$780	\$1,650	\$1,828
Operating expenses				
Cost of natural gas	147	196	400	463
Operation and maintenance	339	346	666	660
Depreciation and amortization	112	113	234	226
Franchise fees and other taxes	30	31	67	65
Total operating expenses	628	686	1,367	1,414
Operating (loss) income	(11)	94	283	414
Other income, net	6	9	16	17
Interest income		3		3
Interest expense	(24)	(19)	(46)	(38)
(Loss) income before income taxes	(29)	87	253	396
Income tax benefit (expense)	29	(16)	(58)	(111)
Net income		71	195	285
Preferred dividend requirements	(1)	(1)	(1)	(1)
(Losses) earnings attributable to common shares	\$(1)	\$70	\$194	\$284

See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED STATEMENTS OF COMPREHENSIVE
INCOME (LOSS)

(Dollars in millions)

	Pretax amount	Income tax benefit (expense)	Net-of-tax amount
	Three months ended June 30, 2016 and 2015 (unaudited)		
2016:			
Net loss/Comprehensive loss	\$(29)	\$ 29	\$
2015:			

Net income/Comprehensive income \$87 \$ (16) \$ 71

Six months ended
June 30, 2016
and 2015
(unaudited)

2016:
Net income/Comprehensive income \$253 \$(58) \$195
2015:
Net income/Comprehensive income \$396 \$(111) \$285
See Notes to Condensed Financial Statements.

SOUTHERN
CALIFORNIA GAS
COMPANY
CONDENSED
BALANCE SHEETS
(Dollars in millions)

	June 30, 2016 (unaudited)	December 31, 2015(1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 211	\$ 58
Accounts receivable – trade, net	337	635
Accounts receivable – other	8	99
Due from unconsolidated affiliates	7	48
Income taxes receivable	6	
Inventories	4	79
Regulatory assets	8	7
Other	5	40
	730	966

Total current assets		
Other assets:		
Regulatory assets arising from	732	699
pension obligations		
Other regulatory assets	717	636
Insurance receivable for Aliso Canyon costs	679	325
Sun Summit	252	207
Total other assets	2,380	1,867
Property, plant and equipment:		
Property, plant and equipment	14,910	14,171
Less accumulated depreciation and amortization	(4,904)	(4,900)
Property, plant and equipment, net	9,976	9,271
Total assets	\$ 13,086	\$ 12,104

(1) Derived from audited financial statements. See Notes to Condensed Financial Statements.

SOUTHERN
CALIFORNIA GAS
COMPANY
CONDENSED
BALANCE SHEETS
(CONTINUED)

(Dollars in millions)

June 30, 2016 (unaudited)	December 31, 2015(1)
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable – trade	\$ 477
Accounts payable – other	\$ 422
Due to unconsolidated affiliate	76
Income taxes payable	25
Accrued compensation and benefits	3
Regulatory balancing accounts – net overcollected	123
Current portion of long-term debt	160
Customer deposits	34
Reserve for	9
	76
	274

Aliso Canyon costs		
Other	181	184
Total		
current liabilities	1,079	1,238
Long-term debt	2,401	2,481
Deferred credits and other liabilities:		
Customer advances for construction	102	103
Pension obligation, net of plan assets	749	716
Deferred income taxes	1,637	1,532
Deferred investment tax credits	12	14
Regulatory liabilities arising from removal obligations	1,149	1,145
Asset retirement obligations	1,607	1,354
Deferred credits and other	437	372
Total deferred credits and other liabilities	5,783	5,236

Commitments
and
contingencies
(Note
11)

Shareholders'
equity:

Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	2,474	2,280
Accumulated other comprehensive income (loss)	(19)	(19)
Total shareholders' equity	3,143	3,149
Total liabilities and \$ 13,086		\$ 12,104
shareholders' equity		

(1) Derived from audited
financial statements.
See Notes to Condensed
Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in millions)

Six months ended June 30,

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	2016 (unaudited)		2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 195		\$ 285
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	234		226
Deferred income taxes and investment tax credits	32		76
Other	7		(15)
Net change in other working capital components	190		(58)
Insurance receivable for Aliso Canyon costs	(354)		
Changes in other assets	(54)		(30)
Changes in other liabilities	12		(1)
Net cash provided by operating activities	262		483
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(650)		(603)
Decrease (increase) in loans to affiliate, net	50		(279)
Net cash used in investing activities	(600)		(882)
CASH FLOWS FROM FINANCING ACTIVITIES			
Preferred dividends paid	(1)		(1)
Issuances of long-term debt	499		599
Payments on long-term debt	(3)		
Decrease in short-term debt, net			(50)
Other	(4)		(3)
Net cash provided by financing activities	491		545
Increase in cash and cash equivalents	153		146
Cash and cash equivalents, January 1	58		85
Cash and cash equivalents, June 30	\$ 211		\$ 231

**SUPPLEMENTAL
DISCLOSURE OF CASH
FLOW INFORMATION**

Interest payments, net of amounts capitalized	\$	43	\$	36
Income tax payments, net		35		14

SUPPLEMENTAL
DISCLOSURE OF NONCASH
INVESTING ACTIVITY

Accrued capital expenditures	\$	140	\$	143
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See Notes to Condensed Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL

PRINCIPLES OF CONSOLIDATION

Sempra Energy

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

§ San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), which are separate, reportable segments;

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

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

We provide descriptions of each of our segments in Note 12.

We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include the utilities in our Sempra International and Sempra U.S. Gas & Power operating units. Sempra Global is the holding company for most of our subsidiaries that are not subject to California utility regulation. All references in these Notes to "Sempra International," "Sempra U.S. Gas & Power" and their respective reportable segments are not intended to refer to any legal entity with the same or similar name.

Our Sempra Mexico segment includes the operating companies of our subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova), as well as certain holding companies and risk management activity. We discuss IEnova further in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2015 (the Annual Report), which includes the combined reports for Sempra Energy, SDG&E and SoCalGas.

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated entities in Notes 3 and 4 herein and in Notes 3, 4 and 10 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E

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

SoCalGas

SoCalGas' common stock is wholly owned by Pacific Enterprises, which is a wholly owned subsidiary of Sempra Energy.

BASIS OF PRESENTATION

This is a combined report of Sempra Energy, SDG&E and SoCalGas. We provide separate information for SDG&E and SoCalGas as required. References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra

Energy and its consolidated entities, unless otherwise indicated by the context. We have eliminated intercompany accounts and transactions within the consolidated financial statements of each reporting entity.

Throughout this report, we refer to the following as Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements when discussed together or collectively:

§ the Condensed Consolidated Financial Statements and related Notes of Sempra Energy and its subsidiaries and VIEs,

§ the Condensed Consolidated Financial Statements and related Notes of SDG&E and its VIE, and

§ the Condensed Financial Statements and related Notes of SoCalGas.

We have prepared the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. We evaluated events and transactions that occurred after June 30, 2016 through the date the financial statements were issued and, in the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal, recurring nature.

All December 31, 2015 balance sheet information in the Condensed Consolidated Financial Statements has been derived from our audited 2015 Consolidated Financial Statements in the Annual Report. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the interim-period-reporting provisions of U.S. GAAP and the Securities and Exchange Commission.

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. We follow the same accounting policies for interim reporting purposes.

You should read the information in this Quarterly Report in conjunction with the Annual Report.

Regulated Operations

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

Pipeline projects currently under construction by IEnova that are both regulated by the Comisión Reguladora de Energía (or CRE, the Energy Regulatory Commission) and meet the regulatory accounting requirements of U.S. GAAP record the impact of allowance for funds used during construction (AFUDC) related to equity. We discuss AFUDC in Note 5 below and in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 2. NEW ACCOUNTING STANDARDS

We describe below recent pronouncements that have had or may have a significant effect on our financial statements. We do not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to our financial condition, results of operations, cash flows or disclosures.

SEMPRA ENERGY, SDG&E AND SOCALGAS

Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers," ASU 2015-14, "Deferral of the Effective Date," ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU 2016-10, "Identifying Performance Obligations and Licensing," and ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients": ASU 2014-09 provides accounting guidance for revenue from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain

nonfinancial assets, such as property and equipment, including real estate. This guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. Amending ASU 2014-09, ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations, ASU 2016-10 clarifies the determination of whether a good or service is separately identifiable from other promises and revenue recognition related to licenses of intellectual property, and ASU 2016-12 provides guidance on transition, collectability, noncash consideration, and the presentation of sales and other similar taxes.

ASU 2015-14 defers the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. For public entities, ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years beginning after December 15, 2016, and is effective for interim periods in the year of adoption. We are currently evaluating the effect of the standards on our ongoing financial reporting and have not yet selected the timing of adoption or our transition method.

ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities": In addition to the presentation and disclosure requirements for financial instruments, ASU 2016-01 requires entities to measure equity investments not accounted for under the equity method at fair value and recognize changes in fair value in net income. Entities will no longer be able to use the cost method of accounting for equity securities. However, for equity investments without readily determinable fair values, entities may elect a measurement alternative that will allow those investments to be recorded at cost, less impairment, and adjusted for subsequent observable price changes. Upon adoption, entities must record a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the standard is adopted. The guidance on equity securities without readily determinable fair value will be applied prospectively to all equity investments that exist as of the date of adoption of the standard. For public entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2017. We will adopt ASU 2016-01 on January 1, 2018 as required and do not expect it to materially affect our financial condition, results of operations or cash flows. We will make the required changes to our disclosures upon adoption.

ASU 2016-02, "Leases": ASU 2016-02 requires entities to include substantially all leases on the balance sheet by requiring the recognition of right-of-use assets and lease liabilities for all leases. Entities may elect to exclude from the balance sheet those leases with a maximum possible term of less than 12 months. For lessees, a lease is classified as finance or operating and the asset and liability are initially measured at the present value of the lease payments. For lessors, accounting for leases is largely unchanged from previous U.S. GAAP, other than certain changes to align lessor accounting to specific changes made to lessee accounting and ASU 2014-09. ASU 2016-02 also requires qualitative disclosures along with specific quantitative disclosures for both lessees and lessors.

For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and is effective for interim periods in the year of adoption. The standard requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes optional practical expedients that may be elected, which would allow entities to continue to account for leases that commence before the effective date of the standard in accordance with previous U.S. GAAP unless the lease is modified, except for the lessee requirement to recognize right-of-use assets and lease liabilities for all operating leases on the balance sheet at the reporting date. We are currently evaluating the effect of the standard on our ongoing financial reporting, and have not yet selected the year in which we will adopt the standard.

ASU 2016-05, "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships": ASU 2016-05 provides clarification that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-05 may be adopted prospectively or using a modified retrospective approach. We prospectively adopted ASU 2016-05 on January 1, 2016, and it did not affect our financial condition, results of operations or cash flows.

ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting": ASU 2016-09 is intended to simplify several aspects of the accounting for employee share-based payment transactions. Under ASU 2016-09, excess tax benefits and tax deficiencies are required to be recorded in earnings, and the requirement to reclassify excess tax

benefits from operating to financing activities on the statement of cash flows has been eliminated. ASU 2016-09 also allows entities to withhold taxes up to the maximum individual statutory tax rate without resulting in liability classification of the award and clarifies that cash payments made to taxing authorities in connection with withheld shares should be classified as financing activities in the statement of cash flows. Additionally, the standard provides for an accounting policy election to either continue to estimate forfeitures or account for them as they occur. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted, and is effective for interim periods in the year of adoption. We are currently evaluating the full effect of the standard on our ongoing financial reporting, and have not yet concluded as to whether we will elect an early adoption. If we early adopt in 2016, we will recognize a \$34 million tax benefit in earnings, which is currently recorded in Shareholders' Equity, related to the six months ended June 30, 2016, and a benefit to retained earnings as of January 1, 2016 of approximately \$107 million, both associated with the provision in ASU 2016-09 to recognize all excess tax benefits related to share-based compensation.

ASU 2016-13, "Measurement of Credit Losses on Financial Instruments": ASU 2016-13 changes how entities will measure credit losses for most financial assets and certain other instruments. The standard introduces an "expected credit loss" impairment model that requires immediate recognition of estimated credit losses expected to occur over the remaining life of most financial assets measured at amortized cost, including trade and other receivables, loan commitments and financial guarantees. ASU 2016-13 also requires use of an allowance to record estimated credit losses on available-for-sale debt securities and expands disclosure requirements regarding an entity's assumptions, models and methods for estimating the credit losses.

For public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the effect of the standard on our ongoing financial reporting.

NOTE 3. ACQUISITION AND DIVESTITURE ACTIVITY

We consolidate assets and liabilities acquired as of the purchase date and include earnings from acquisitions in consolidated earnings after the purchase date.

ACQUISITIONS

Sempra Renewables

In July 2016, Sempra Renewables invested \$22 million to acquire a 100-percent interest in the Apple Blossom Wind project, a 100-megawatt (MW) wind farm currently under development in Huron County, Michigan. The wind farm has a 15-year power purchase agreement with Consumers Energy that will commence upon commercial operation, expected in late 2017.

In March 2015, Sempra Renewables invested \$8 million to acquire a 100-percent interest in the Black Oak Getty Wind project, a 78-MW wind farm currently under construction in Stearns County, Minnesota. The wind farm has a 20-year power purchase agreement with Minnesota Municipal Power Agency that will commence upon commercial operation, expected in late 2016.

PENDING ACQUISITION

Sempra Mexico

IEnova and Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company) are 50-50 partners in the joint venture Gasoductos de Chihuahua S. de R.L. de C.V. (GdC). GdC develops and operates energy infrastructure in Mexico. On July 31, 2015, IEnova entered into an agreement to purchase PEMEX's 50-percent interest in GdC. The assets involved in the acquisition included three natural gas pipelines, an ethane pipeline, and a liquid petroleum gas pipeline and associated storage terminal.

In December 2015, Mexico's Comisión Federal de Competencia Económica (COFECE or Mexican Competition Commission) objected to the transaction based upon previous antitrust rulings on PEMEX's indirect ownership of two of the assets, the TDF S. de R.L. de C.V. liquid petroleum gas pipeline (TDF Pipeline) and the San Fernando natural gas pipeline (San Fernando Pipeline), included in the acquisition as proposed. COFECE specified that these assets must be offered by PEMEX in a competitive bidding process as a prerequisite for approval of any transaction involving these two assets. COFECE's decision did not object to IEnova's acquisition of the assets on a market concentration basis.

In July 2016, IEnova announced that the parties reached an agreement to restructure the transaction to allow PEMEX to satisfy the conditions imposed by the COFECE to hold the TDF Pipeline and San Fernando Pipeline for sale in an open bidding process. The open bidding process was held in July 2016 and ended with no bidders participating. Subject to final approval by the COFECE, IEnova expects to acquire GdC's assets consistent with the original agreement, including the TDF and San Fernando pipelines, for a purchase price of approximately \$1.1 billion. Also consistent with the original agreement, we expect the transaction to exclude the Los Ramones Norte pipeline that is owned under a separate joint venture with GdC, PEMEX, BlackRock and First Reserve, keeping IEnova's interest in the pipeline at the current 25 percent. We expect the transaction to close in the third quarter of 2016. The transaction remains subject to the satisfactory completion of the Mexican antitrust review and customary closing conditions, and may require further approvals from other Mexican authorities.

IEnova currently accounts for its 50-percent interest in GdC as an equity method investment. At closing, GdC will become a wholly owned, consolidated subsidiary of IEnova. We anticipate that we will recognize a noncash gain associated with the remeasurement of our equity interest in GdC upon consummation of the transaction; however, as the assets to be included in the transaction are not yet confirmed and the valuation of such assets is not finalized, we are unable to reasonably estimate the gain at this time.

Sempra Energy has committed to provide interim financing to close the transaction. We expect to ultimately finance the acquisition with a combination of debt and equity at IEnova based on market conditions.

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 12 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.

The following table summarizes the carrying amounts of the major classes of assets and related liabilities held for sale at June 30, 2016, and we discuss each group of assets below.

ASSETS HELD FOR SALE

AT JUNE 30, 2016

(Dollars

in

millions)

TermoeléctricaEnergySouth	
de Mexicali	Inc.
\$ 1	\$ 1

Cash and cash equivalents		
Inventories	3	
Other current assets	13	
Regulatory assets	12	
Goodwill	72	
Other assets	53	
Property, plant and equipment, net	250	203
Total assets held for sale	297	\$ 357
Accounts payable	\$ 9	
Other current liabilities	12	
Long-term debt	67	
Deferred income taxes	38	
Regulatory liabilities	22	
Asset retirement obligations	12	
Other liabilities	19	
Total liabilities held for sale	43	\$ 179

Sempra Mexico

Termoeléctrica de Mexicali

In February 2016, management approved a plan to market and sell Sempra Mexico's Termoeléctrica de Mexicali (TdM), a 625-MW natural gas-fired power plant located in Mexicali, Baja California, Mexico. As a result, we stopped depreciating the plant and classified it as held for sale.

In connection with classifying TdM as held for sale, we recognized expense of \$3 million (\$2 million after noncontrolling interests) and \$32 million (\$26 million after noncontrolling interests) in the three months and six months ended June 30, 2016, respectively, in Income Tax Expense on Sempra Energy's Condensed Consolidated Statements of Operations for a deferred Mexican income tax liability related to the excess of carrying value over the tax basis. As the Mexican income tax on this basis difference is based on current carrying value, foreign exchange rates and inflation, such amount could change in future periods until the date of sale.

We considered the estimated fair value of the plant, less costs to sell, and determined that no adjustment to carrying value was required. In estimating fair value, we used both a market approach and discounted cash flow valuation techniques. In the event that the estimated sales price, less transaction costs, is less than the carrying value, or updated market information indicates fair value may be less than carrying value, we would recognize a loss in our results of operations at that time. We expect to complete the sale in the second half of 2016.

Sempra Natural Gas

EnergySouth Inc.

In April 2016, Sempra Natural Gas signed a definitive agreement to sell 100 percent of the outstanding equity of EnergySouth Inc. (EnergySouth), the parent company of Mobile Gas and Willmut Gas. We expect to receive cash proceeds of approximately \$323 million, subject to normal adjustments at closing, and the buyer will assume existing debt of approximately \$67 million. Litigation at Mobile Gas, discussed in Note 11, will be retained by Mobile Gas at the close of the transaction. The transaction is subject to customary regulatory approvals. In addition, the State of Missouri Public Service Commission (MPSC) in July 2016 opened an investigation into whether the transaction will have any effect on Missouri ratepayers and is subject to MPSC's jurisdiction. We expect the sale to close in 2016.

DIVESTITURES

Sempra Natural Gas

Investment in Rockies Express Pipeline LLC

In March 2016, Sempra Natural Gas entered into an agreement to sell its 25-percent interest in Rockies Express Pipeline LLC (Rockies Express) to a subsidiary of Tallgrass Development, LP for cash consideration of \$440 million, subject to adjustment at closing. The transaction closed in May 2016 for total cash proceeds of \$443 million.

At the date of the agreement, the carrying value of Sempra Natural Gas' investment in Rockies Express was \$484 million. Sempra Natural Gas measured the fair value of its equity method investment at \$440 million, and recognized a \$44 million (\$27 million after-tax) impairment in Equity Earnings (Losses), Before Income Tax, on the Sempra Energy Condensed Consolidated Statement of Operations in the first quarter of 2016. We discuss non-recurring fair value measures and the associated accounting impact on our investment in Rockies Express in Note 8.

In the second quarter of 2016, Sempra Natural Gas permanently released pipeline capacity that it held with Rockies Express and others, as we discuss in Note 11.

Mesquite Power Plant

In April 2015, Sempra Natural Gas sold the remaining 625-MW block of the Mesquite Power plant, together with a related power sales contract, for net cash proceeds of \$347 million. We recognized a pretax gain on the sale of \$61 million (\$36 million after-tax), included in Gain on Sale of Assets on our Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2015.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We provide additional information concerning our equity method investments in Note 3 above and in Notes 3 and 4 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA MEXICO

In June 2016, Infraestructura Marina del Golfo (IMG), a joint venture between IEnova and a subsidiary of TransCanada Corporation (TransCanada), was awarded the right to build, own and operate the Sur de Texas – Tuxpan natural gas pipeline by the Federal Electricity Commission (Comisión Federal de Electricidad, or CFE). IEnova has a 40-percent interest in the project and TransCanada owns the remaining 60-percent interest. The project is expected to be completed in late 2018 and is fully contracted under a 25-year natural gas transportation service contract with the CFE.

SEMPRA RENEWABLES

Sempra Renewables invested cash of \$18 million in its joint ventures during both the six months ended June 30, 2016 and 2015.

SEMPRA NATURAL GAS

Sempra Natural Gas capitalized \$24 million of interest during both the six months ended June 30, 2016 and 2015 related to its investment in Cameron LNG Holdings, LLC (Cameron LNG JV), which has not commenced planned principal operations. In addition, during the six months ended June 30, 2015, Sempra Natural Gas invested cash of \$3 million in the joint venture and accrued \$7 million for a project capital call due and subsequently paid in July 2015. In May 2016, Sempra Natural Gas sold its 25-percent interest in Rockies Express, as we discuss in Note 3. In April 2015, Sempra Natural Gas invested \$113 million of cash in Rockies Express to repay project debt that matured in early 2015.

GUARANTEES

We discuss guarantees that we have provided, which have a maximum aggregate amount of \$4.5 billion, in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report. These guarantees have an aggregate carrying value of \$63 million at June 30, 2016.

NOTE 5. OTHER FINANCIAL DATA

INVENTORIES

The components of inventories by segment are as follows:

INVENTORY BALANCES

(Dollars in millions)

	Natural gas		Liquefied natural gas		Materials and supplies		Total	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
SDG&E	\$ 6	\$ 6	\$ 70	\$ 69	\$ 71	\$ 75		
SoCalGas	(149)		44	30	44	79		
Sempra South American Utilities			43	30	43	30		
Sempra Mexico			7	3	2	10	9	13
Sempra Renewables					3	3	3	3
Sempra Natural Gas	96	94	4	3	1	100	98	
Sempra Energy	\$ 11	\$ 6	\$ 162	\$ 143	\$ 270	\$ 298		

At both June 30, 2016 and December 31, 2015, SoCalGas'

(1) natural gas inventory for core customers is net of an inventory loss related to the Aliso Canyon natural gas leak, which we discuss in Note 11.

GOODWILL

We discuss goodwill in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. The decrease in goodwill from \$819 million at December 31, 2015 to \$786 million at June 30, 2016 is due to the reclassification of EnergySouth goodwill at Sempra Natural Gas to assets held for sale, offset by foreign currency translation at Sempra South American Utilities. We record the offset of the fluctuation from foreign currency translation in Other Comprehensive Income (Loss).

VARIABLE INTEREST ENTITIES

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

§ the purpose and design of the VIE;

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

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

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

SDG&E

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interests exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary.

Tolling Agreements

SDG&E has agreements under which it purchases power generated by facilities for which it supplies all of the natural gas to fuel the power plant (i.e., tolling agreements). SDG&E's obligation to absorb natural gas costs may be a significant variable interest. In addition, SDG&E has the power to direct the dispatch of electricity generated by these facilities. Based upon our analysis, the ability to direct the dispatch of electricity may have the most significant impact on the economic performance of the entity owning the generating facility because of the associated exposure to the cost of natural gas, which fuels the plants, and the value of electricity produced. To the extent that SDG&E (1) is obligated to purchase and provide fuel to operate the facility, (2) has the power to direct the dispatch, and (3) purchases all of the output from the facility for a substantial portion of the facility's useful life, SDG&E may be the primary beneficiary of the entity owning the generating facility. SDG&E determines if it is the primary beneficiary in these cases based on a qualitative approach in which we consider the operational characteristics of the facility, including its expected power generation output relative to its capacity to generate and the financial structure of the entity, among other factors. If we determine that SDG&E is the primary beneficiary, SDG&E and Sempra Energy consolidate the entity that owns the facility as a VIE.

Otay Mesa VIE

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

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights, holds no equity in OMEC LLC and does not operate OMEC. In addition to the risks absorbed under the tolling agreement, SDG&E absorbs separately through the put option a significant portion of the risk that the value of Otay Mesa VIE could decline. Accordingly, SDG&E and Sempra Energy have consolidated Otay Mesa VIE. Otay Mesa VIE's equity of \$37 million at June 30, 2016 and \$53 million at December 31, 2015 is included on the Condensed Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interest for SDG&E.

OMEC LLC has a loan outstanding of \$310 million at June 30, 2016, the proceeds of which were used for the construction of OMEC. The loan is with third party lenders and is secured by OMEC's property, plant and equipment. SDG&E is not a party to the loan agreement and does not have any additional implicit or explicit financial responsibility to OMEC LLC. The loan fully matures in April 2019 and bears interest at rates varying with market rates. In addition, OMEC LLC has entered into interest rate swap agreements to moderate its exposure to interest rate changes. We provide additional information concerning the interest rate swaps in Note 7.

The Condensed Consolidated Statements of Operations of Sempra Energy and SDG&E include the following amounts associated with Otay Mesa VIE. The amounts are net of eliminations of transactions between SDG&E and Otay Mesa VIE. The captions in the table below generally correspond to SDG&E's Condensed Consolidated Statements of Operations.

AMOUNTS ASSOCIATED WITH OTAY MESA VIE

(Dollars in millions)

	Three months ended June 30, 2016		Six months ended June 30, 2015	
Operating expenses				
Cost of electric fuel and purchased power	\$(17)	\$(21)	\$(34)	\$(39)
Operation and maintenance	15	6	19	10
Depreciation and amortization	10	6	17	12
Total operating expenses	8	(9)	2	(17)
Operating (loss) income	(8)	9	(2)	17

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Interest expense	(5)	(5)	(10)	(9)
(Loss) income before income taxes/Net (loss) income	(13)	4	(12)	8
Losses (earnings) attributable to noncontrolling interest	13	(4)	12	(8)
Earnings attributable to common shares	\$	\$	\$	\$

SDG&E has determined that no contracts, other than the one relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary of a variable interest entity at June 30, 2016. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. In addition, SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates. We provide additional information about power purchase agreements with peaker plant facilities that are VIEs of which SDG&E is not the primary beneficiary in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

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

Sempra Natural Gas

Sempra Energy's equity method investment in Cameron LNG JV is considered to be a VIE generally due to contractual provisions that transfer certain risks to customers. Sempra Energy is not the primary beneficiary because we do not have the power to direct the most significant activities of Cameron LNG JV. We will continue to evaluate Cameron LNG JV for any changes that may impact our determination of the primary beneficiary. The carrying value of our investment in Cameron LNG JV, including amounts recognized in Accumulated Other Comprehensive Income (Loss) (AOCI) related to interest-rate cash flow hedges at Cameron LNG JV, was \$818 million at June 30, 2016 and \$983 million at December 31, 2015. Our maximum exposure to loss includes the carrying value of our investment and the guarantees discussed above in Note 4 and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Variable Interest Entities

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

PENSION AND OTHER POSTRETIREMENT BENEFITS

Net Periodic Benefit Cost

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

NET PERIODIC BENEFIT COST – SEMPRA ENERGY
CONSOLIDATED

(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended June 30,			
	2016	2015	2016	2015
Service cost	\$27	\$29	\$ 6	\$ 7
Interest cost	40	39	11	11
Expected return on assets	(41)	(44)	(18)	(17)
Amortization of:				
Prior service cost	3	2		
Actuarial loss	7	11		
Regulatory adjustment	(28)	(30)	2	
Total net periodic benefit cost	\$8	\$7	\$ 1	\$ 1

	Six months ended June 30,			
	2016	2015	2016	2015
Service cost	\$55	\$59	\$ 11	\$ 14
Interest cost	80	78	22	23
Expected return on assets	(83)	(88)	(35)	(34)
Amortization of:				
Prior service cost (credit)	6	5		(1)
Actuarial loss	13	19		
Regulatory adjustment	(56)	(59)	4	
Total net periodic benefit cost	\$15	\$14	\$ 2	\$ 2

NET PERIODIC BENEFIT COST – SDG&E

(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended June 30,			
	2016	2015	2016	2015
Service cost	\$8	\$8	\$ 1	\$ 2
Interest cost	11	10	2	2
Expected return on assets	(13)	(13)	(2)	(3)
Amortization of:				
Prior service cost	1	1	1	1
Actuarial loss (gain)	2	2	(1)	
Regulatory adjustment	(8)	(7)	(1)	(2)
Total net periodic benefit cost	\$1	\$1	\$	\$

Six months ended June 30,
2016 2015 2016 2015

Service cost	\$15	\$16	\$ 2	\$ 4
Interest cost	21	20	4	4
Expected return on assets	(25)	(27)	(5)	(6)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial loss (gain)	5	4	(1)	
Regulatory adjustment	(15)	(12)	(2)	(4)
Total net periodic benefit cost	\$2	\$2	\$	\$

NET PERIODIC BENEFIT COST – SOCALGAS

(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended June 30,			
	2016	2015	2016	2015
Service cost	\$18	\$19	\$ 3	\$ 5
Interest cost	25	24	9	9
Expected return on assets	(27)	(27)	(14)	(14)
Amortization of:				
Prior service cost (credit)	2	2	(1)	(2)
Actuarial loss	2	6		
Regulatory adjustment	(20)	(23)	3	2
Total net periodic benefit cost	\$	\$1	\$	\$

	Six months ended June 30,			
	2016	2015	2016	2015
Service cost	\$35	\$38	\$ 7	\$ 10
Interest cost	50	49	17	18
Expected return on assets	(52)	(54)	(28)	(28)
Amortization of:				
Prior service cost (credit)	4	4	(2)	(4)
Actuarial loss	5	11		
Regulatory adjustment	(41)	(47)	6	4
Total net periodic benefit cost	\$1	\$1	\$	\$

Benefit Plan Contributions

The following table shows our year-to-date contributions to pension and other postretirement benefit plans and the amounts we expect to contribute in 2016:

BENEFIT PLAN CONTRIBUTIONS

(Dollars in millions)

Sempra
Energy
ConsolidatedSDG&ESoCalGas

Contributions through June 30, 2016:

Pension plans	\$ 23	\$ 2	\$
Other postretirement benefit plans	2		1
Total expected contributions in 2016:			
Pension plans	\$ 123	\$ 4	\$ 77
Other postretirement benefit plans	6	2	1

RABBI TRUST

In support of its Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including a Rabbi Trust and investments in life insurance contracts, which totaled \$436 million and \$464 million at June 30, 2016 and December 31, 2015, respectively.

EARNINGS PER SHARE

The following table provides earnings per share (EPS) computations for the three months and six months ended June 30, 2016 and 2015. Basic EPS is calculated by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

EARNINGS PER SHARE COMPUTATIONS

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Numerator:				
Earnings/Income attributable to common shares	\$16	\$295	\$335	\$732
Denominator:				
Weighted-average common shares outstanding for basic EPS(1)	250,096	248,108	249,915	247,916
Dilutive effect of stock options, restricted				
stock awards and restricted stock units	1,842	3,383	1,771	3,348
Weighted-average common shares outstanding for diluted EPS	251,938	251,491	251,686	251,264
Earnings per share:				
Basic	\$0.06	\$1.19	\$1.34	\$2.95
Diluted	0.06	1.17	1.33	2.91

Includes 568 and 501 average fully vested restricted stock units held in our Deferred Compensation Plan for the three months ended June 30, 2016 and 2015, respectively, and 562 and 476 of such units for the six months ended (1) June 30, 2016 and 2015, respectively. These fully vested restricted stock units are included in weighted-average common shares outstanding for basic EPS because there are no conditions under which the corresponding shares will not be issued.

The dilution from common stock options is based on the treasury stock method. Under this method, proceeds based on the exercise price plus unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits are tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation of dilutive common stock equivalents excludes options for which the exercise price on common stock was greater than the average market price during the period (out-of-the-money options). For the three months and six months ended June 30, 2016 and 2015, we had no such antidilutive stock options outstanding. For the three months and six months ended June 30, 2016 and 2015, we had no 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.

The dilution from unvested restricted stock awards (RSAs) and restricted stock units (RSUs) is also based on the treasury stock method. Proceeds equal to the unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, related to the awards and units are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits or tax shortfalls recognized are the difference between tax deductions we would receive upon the assumed vesting of RSAs or RSUs and the deferred income taxes we recorded related to the compensation expense on such awards and units. There were no antidilutive RSAs and 1,010 antidilutive RSUs from the application of unearned compensation in the treasury stock method for the three months ended June 30, 2016. There were no such antidilutive RSAs and 2,408 such antidilutive RSUs for the six months ended June 30, 2016. There were no such antidilutive RSAs and 4,715 such antidilutive RSUs for both the three months and six months ended June 30, 2015.

Our performance-based RSUs include awards that vest at the end of three-year (for awards granted during or after 2015) or four-year performance periods based on Sempra Energy's total return to shareholders relative to that of specified market indices (Total Shareholder Return or TSR RSUs) or based on the compound annual growth rate of Sempra Energy's EPS (EPS RSUs). The comparative market indices for the TSR RSUs are the Standard & Poor's (S&P) 500 Utilities Index and the S&P 500 Index. We primarily use long-term analyst consensus growth estimates for S&P 500 Utilities Index peer companies to develop our EPS RSU targets. TSR RSUs represent the right to receive from zero to 1.5 shares (2.0 shares for awards granted during or after 2014) of Sempra Energy common stock if performance targets are met. EPS RSUs represent the right to receive from zero to 2.0 shares of Sempra Energy common stock if performance targets are met. If performance falls between the targets specified for each performance metric, we calculate the payout using linear interpolation. Participants also receive additional shares for dividend equivalents on shares subject to RSUs, which are deemed reinvested to purchase additional units that become subject to the same vesting conditions as the RSUs to which the dividends relate. We discuss performance-based RSU awards further in Note 8 of the Notes to Consolidated Financial Statements in our Annual Report.

Our RSAs, which are solely service-based, and those RSUs that are service-based or issued in connection with certain other performance goals represent the right to receive up to 1.0 share if the service requirements or certain other vesting conditions are met. These RSAs and RSUs have the same dividend equivalent rights as the performance-based RSUs described above. We include RSAs and these RSUs in potential dilutive shares at 100 percent, subject to the application of the treasury stock method. We include our TSR RSUs and EPS RSUs in potential dilutive shares at zero to up to 200 percent to the extent that they currently meet the performance requirements for vesting, subject to the application of the treasury stock method. Due to market fluctuations of both Sempra Energy stock and the comparative indices, dilutive TSR RSU shares may vary widely from period-to-period. If it were assumed that performance goals for all performance-based RSUs were met at maximum levels and if the treasury stock method were not applied to any of our RSAs or RSUs, the incremental potential dilutive shares would be 1,417,481 and 1,370,460 for the three months ended June 30, 2016 and 2015, respectively, and 1,491,195 and 1,424,855 for the six months ended June 30, 2016 and 2015, respectively.

SHARE-BASED COMPENSATION

We discuss our share-based compensation plans in Note 8 of the Notes to Consolidated Financial Statements in the Annual Report. We recorded share-based compensation expense, net of income taxes, of \$6 million and \$7 million for the three months ended June 30, 2016 and 2015, respectively, and \$13 million and \$15 million for the six months ended June 30, 2016 and 2015, respectively. Pursuant to our Sempra Energy share-based compensation plans, Sempra Energy's compensation committee granted 373,070 TSR RSUs, 94,760 EPS RSUs and 95,876 service-based RSUs during the six months ended June 30, 2016, primarily in January.

During the six months ended June 30, 2016, IEnova issued 183,970 RSUs from the IEnova 2013 Long-Term Incentive Plan, under which awards are cash settled at vesting based on the price of IEnova common stock.

CAPITALIZED FINANCING COSTS

Capitalized financing costs include capitalized interest costs and AFUDC related to both debt and equity financing of construction projects. We capitalize interest costs incurred to finance capital projects and interest on equity method investments that have not commenced planned principal operations.

The following table shows capitalized financing costs for the three months and six months ended June 30, 2016 and 2015.

CAPITALIZED FINANCING COSTS

(Dollars in millions)

	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Sempra Energy Consolidated:				
AFUDC related to debt	\$ 8	\$ 7	\$ 15	\$ 13
AFUDC related to equity	30	31	57	58
Other capitalized interest	20	17	38	34
Total	\$ 58	\$ 55	\$ 110	\$ 105
Sempra Energy Consolidated SDG&E:				
	\$ 4	\$ 4	\$ 8	\$ 7

AFUDC				
related				
to				
debt				
AFUDC				
related	13	10	24	18
to				
equity				
Total				
SDG&E	\$ 17	\$ 14	\$ 32	\$ 25
SoCalGas:				
AFUDC				
related	\$ 4	\$ 3	\$ 7	\$ 6
to				
debt				
AFUDC				
related	10	10	20	19
to				
equity				
Total				
SoCalGas	\$ 14	\$ 13	\$ 27	\$ 25

COMPREHENSIVE INCOME

The following tables present the changes in AOCI by component and amounts reclassified out of AOCI to net income, excluding amounts attributable to noncontrolling interests:

CHANGES IN ACCUMULATED OTHER
COMPREHENSIVE INCOME (LOSS) BY
COMPONENT(1)

SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

Foreign			Total
currency	Financial	Pension and	accumulated
translation	instruments	postretirement	other
adjustments	benefits	comprehensive	income (loss)

Three months ended June 30, 2016 and 2015			
2016:			
Balance			
as			
of	\$ (514)	\$ (221)	\$ (86)
March			\$ (821)
31,			
2016			
Other			
comprehensive			
income			
(loss)			

before				
reclassifications	(48)		(37)	
Amounts reclassified from accumulated other comprehensive income	5	1	6	
Net other comprehensive income (loss)	(43)	1	(31)	
Balance as of June 30, 2016	\$(503)	\$(264)	\$ (85)	\$ (852)
2015:				
Balance as of March 31, 2015	\$(384)	\$(145)	\$ (84)	\$ (613)
Other comprehensive income before reclassifications	(57)		14	
Amounts reclassified from accumulated other comprehensive income	2	1	3	
Net other comprehensive income (loss)	(59)	1	17	
Balance as of June 30, 2015	\$(427)	\$(86)	\$ (83)	\$ (596)

Six months ended June 30, 2016 and 2015

2016:

Balance
as
of
December
31,
2015

\$ (582)	\$ (137)	\$ (87)	\$ (806)
----------	----------	---------	----------

Other
comprehensive
income
(loss)
before

reclassifications	(136)		(51)
-------------------	-------	--	------

Amounts
reclassified
from
accumulated
other

comprehensive income	3	2	5
-------------------------	---	---	---

Net
other
comprehensive
income
(loss)

(27)	2		(46)
------	---	--	------

Balance
as
of
June
30,
2016

\$ (503)	\$ (264)	\$ (85)	\$ (852)
----------	----------	---------	----------

2015:

Balance
as
of
December
31,
2014

\$ (322)	\$ (90)	\$ (85)	\$ (497)
----------	---------	---------	----------

Other
comprehensive
income
(loss)
before

reclassifications	(101)		(102)
-------------------	-------	--	-------

Amounts
reclassified
from
accumulated
other

comprehensive income	2	3		
Net other comprehensive (loss) income Balance as of June 30, 2015	2	(99)		
	\$ (427)	\$ (86)	\$ (83)	\$ (596)

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

RECLASSIFICATIONS OUT OF
ACCUMULATED OTHER
COMPREHENSIVE INCOME
(LOSS)

(Dollars in millions)

Amounts reclassified			
Details from about accumulated accumulated other comprehensive income (loss) components	Affected line item on Condensed Consolidated Statements of Operations		
Three months ended June 30, 2016 2015			
Sempra Energy Consolidated: Financial instruments: Interest rate and foreign exchange instruments		\$ 3 \$ 3	Interest Expense
Interest rate instruments		3	Equity Earnings (Losses), Before Income

			Tax
Interest rate and foreign exchange instruments	5		Equity Earnings, Net of Income Tax
Total before income tax	10	6	
	(1)	(1)	Income Tax Expense
Net of income tax	9	5	
	(4)	(3)	Earnings Attributable to Noncontrolling Interests
	\$ 5	\$ 2	
Pension and other postretirement benefits:			
Amortization of actuarial loss	\$ 2	\$ 2	See note (1) below
	(1)	(1)	Income Tax Expense
Net of income tax	\$ 1	\$ 1	
Total reclassifications for the period, net of tax	\$ 6	\$ 3	
SDG&E: Financial instruments: Interest rate	\$ 3		Interest Expense

instruments

		Losses
		(Earnings)
(3)	(3)	Attributable to
		Noncontrolling
		Interest

Total
reclassifications
for
the \$ \$
period,
net of
tax

Amounts are included in the
computation of net periodic
(1) benefit cost (see "Pension and
Other Postretirement Benefits"
above).

RECLASSIFICATIONS OUT OF
ACCUMULATED OTHER
COMPREHENSIVE INCOME
(LOSS)

(Dollars in millions)

Amount		
reclassified		
Details from	Affected line	
about accumulated	item on	
accumulated	Condensed	
other		
comprehensive	Consolidated	
income	Statements of	
(loss)	Operations	
components		
Six months		
ended June 30,		
2016 2015		

Sempra
Energy
Consolidated:
Financial
instruments:

Interest			
rate			
and	\$ 7	\$ 9	Interest
foreign			Expense
exchange			
instruments			
	5	6	

Interest rate instruments			Equity Earnings (Losses), Before Income Tax
Interest rate and foreign exchange instruments	6		Equity Earnings, Net of Income Tax
Commodity contracts not subject to			
rate recovery	(7)	(7)	Revenues: Energy-Related Businesses
Total before income tax	11	8	
	(1)		Income Tax Expense
Net of income tax	10	8	
	(7)	(7)	Earnings Attributable to Noncontrolling Interests
	\$ 3	\$ 1	
Pension and other postretirement benefits:			
Amortization of actuarial loss	\$ 4	\$ 4	See note (1) below
	(2)	(2)	Income Tax Expense
Net of income tax	\$ 2	\$ 2	
Total reclassifications for the	\$ 5	\$ 3	

period,
net of
tax
SDG&E:
Financial
instruments:

Interest rate instruments	\$ 6	\$ 6	Interest Expense
	(6)	(6)	Losses (Earnings) Attributable to Noncontrolling Interest

Total reclassifications for the period, net of tax

Amounts are included in the computation of net periodic (1) benefit cost (see "Pension and Other Postretirement Benefits" above).

For the three months and six months ended June 30, 2016 and 2015, Other Comprehensive Income (Loss) (OCI), excluding amounts attributable to noncontrolling interests, at SDG&E and SoCalGas was negligible, and reclassifications out of AOCI to Net Income were also negligible for SoCalGas.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

The following tables provide reconciliations of changes in Sempra Energy's and SDG&E's shareholders' equity and noncontrolling interests for the six months ended June 30, 2016 and 2015.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS – SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Sempra Energy shareholders' equity	Non-controlling interests(1)	Total equity
Balance at December 31,	\$11,809	\$770	\$12,579

2015		
Comprehensive income	22	312
Preferred dividends of subsidiary	(1)	(1)
Share-based compensation expense		24
Common stock dividends declared	(377)	(377)
Issuances of common stock	56	56
Repurchases of common stock	(54)	(54)
Tax benefit related to share-based compensation	34	34
Equity contributed by noncontrolling interest	1	1
Distributions to noncontrolling interests	(11)	(11)
Balance at June 30, 2016	\$ 11,781	\$ 12,563
Balance at December 31, 2014	\$ 11,826	\$ 12,100
2014		
Comprehensive income	33	667
Preferred dividends	(1)	(1)

of subsidiary Share-based compensation expense		26	
Common stock dividends declared		(347)	
Issuances of common stock		59	
Repurchases of common stock		(66)	
Tax benefit related to share-based compensation		52	
Equity contributed by noncontrolling interest	1	1	
Distributions to noncontrolling interests	(16)	(16)	
Balance at June 30, 2015	\$ 11,683	\$ 792	\$ 12,475

Noncontrolling interests include the preferred stock of SoCalGas and other (1) noncontrolling interests as listed in the table below under "Other Noncontrolling Interests."

SHAREHOLDER'S EQUITY AND NONCONTROLLING INTEREST –
SDG&E
(Dollars in millions)

SDG&E shareholder's equity	Non- controlling interest	Total equity
----------------------------------	---------------------------------	-----------------

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Balance at December 31, 2015	\$5,223	\$53	\$5,276
Comprehensive income (loss)	229	(13)	216
Common stock dividends declared	(175)		(175)
Distributions to noncontrolling interest		(3)	(3)
Balance at June 30, 2016	\$5,277	\$37	\$5,314
Balance at December 31, 2014	\$4,932	\$60	\$4,992
Comprehensive income	273	9	282
Distributions to noncontrolling interest		(8)	(8)
Balance at June 30, 2015	\$5,205	\$61	\$5,266

SHAREHOLDERS' EQUITY SOCALGAS

(Dollars in millions)

	SoCalGas shareholders' equity
Balance at December 31, 2015	\$3,149
Comprehensive income	195
Preferred stock dividends declared	(1)
Balance at June 30, 2016	\$3,343
Balance at December 31, 2014	\$2,781
Comprehensive income	285
Preferred stock dividends declared	(1)
Balance at June 30, 2015	\$3,065

Ownership interests that are held by owners other than Sempra Energy and SDG&E in subsidiaries or entities consolidated by them are accounted for and reported as noncontrolling interests. As a result, noncontrolling interests are reported as a separate component of equity on the Condensed Consolidated Balance Sheets. Earnings or losses attributable to noncontrolling interests are separately identified on the Condensed Consolidated Statements of Operations, and comprehensive income or loss attributable to noncontrolling interests is separately identified on the Condensed Consolidated Statements of Comprehensive Income (Loss).

Preferred Stock

At Sempra Energy, the preferred stock of SoCalGas is presented as a noncontrolling interest and preferred stock dividends are charges against income related to noncontrolling interests. We provide additional information concerning preferred stock in Note 11 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Noncontrolling Interests

At June 30, 2016 and December 31, 2015, we reported the following noncontrolling ownership interests held by others (not including preferred shareholders) recorded in Other Noncontrolling Interests in Total Equity on Sempra Energy's Condensed Consolidated Balance Sheets:

OTHER NONCONTROLLING INTERESTS

(Dollars in millions)

Percent ownership held by others				
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
SDG&E:				
Otay Mesa	100	% 100	% \$37	\$53
VIE Sempra South American Utilities:				
Chilquinta Energía	23.2 – 43.4	23.5 – 43.4	21	21
subsidiaries(1)				
Luz del Sur	16.4	16.4	175	164
Tecun Sempra Mexico:				
IEN	18.9	18.9	484	468
Sempra Natural Gas:				
Bay Gas Storage Company, Ltd.	9.1	9.1	26	25
Liberty Gas Storage, LLC	23.3	23.2	14	14
Southern Gas Transmission Company	49.0	49.0	1	1
Total Sempra Energy			\$762	\$750

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

TRANSACTIONS WITH AFFILIATES

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Amounts due from and to unconsolidated affiliates at Sempra Energy Consolidated, SDG&E and SoCalGas are as follows:

AMOUNTS DUE FROM
(TO)
UNCONSOLIDATED
AFFILIATES
(Dollars in millions)

	June 30,	December
	2016	31, 2015

Sempra Energy Consolidated:		
Total due from various unconsolidated affiliates - current	\$ 6	\$ 6

Sempra South American Utilities(1):		
Eletrans S.A. and Eletrans II S.A.:		
4% Note(2)	\$ 79	\$ 72
Other related party receivables	2	
Sempra Mexico(1):		
Affiliate of joint venture with PEMEX:		
Note due November 13, 2017(3)		3

Note		
due		
November 14, 2018(3)	42	
Note		
due		
November 14, 2018(3)	34	
Note		
due		
November 14, 2018(3)	8	
Energía		
Sierra		
Juárez:		
Note		
due		
June 15, 2018(4)	24	
Sempra		
Natural		
Gas:		
Cameron		
LNG 6 JV	3	
Total		
due		
from		
unconsolidated affiliates	\$ 186	
-		
noncurrent		
Total		
due		
to		
various		
unconsolidated affiliates	\$ (8)	\$ (14)
-		
current		
SDG&E:		
Sempra		
Energy(5)	\$ 163	\$
Other		
affiliates	1	
	\$ 163	\$ 1

Total due from unconsolidated affiliates - current		
Sempra Energy SoCalGas Other affiliates	\$ (34) (13) (183)	(8)
Total due to unconsolidated affiliates - current	\$ (190)	\$ (55)
Income taxes due from Sempra Energy SoCalGas: Sempra Energy SDG&E	\$ 59 \$ 28 \$ 35 13	
Total due from unconsolidated affiliates - current	\$ 71	\$ 48
Sempra Energy	\$ (25)	\$
Total due to unconsolidated affiliate - current	\$ (25)	\$ (25)
Income taxes	\$ 9	\$ 1

due
from
Sempra
Energy(6)

Amounts include

- (1) principal balances plus accumulated interest outstanding.
U.S.
dollar-denominated loan, at a fixed interest rate with no stated maturity date, to provide project
- (2) financing for the construction of transmission lines at Eletrans S.A. and Eletrans II S.A., both of which are joint ventures at Chilquinta Energía.
U.S.
dollar-denominated loan, at a variable interest rate based on
- (3) a 30-day LIBOR plus 450 basis points (4.97 percent at June 30, 2016), to finance the Los Ramones Norte pipeline project.
U.S.
dollar-denominated loan, at a variable interest rate based on a 30-day LIBOR plus
- (4) 637.5 basis points (6.84 percent at June 30, 2016), to finance the first phase of the Energía Sierra Juárez wind project, which is a joint venture of IEnova.
- (5) At June 30, 2016, net receivable included outstanding advances to Sempra Energy of \$172 million at an interest rate of 0.35

- percent.
SDG&E and SoCalGas are included in the consolidated income tax return of Sempra Energy and are allocated income tax expense from Sempra Energy in an amount equal to that which would result from each company having always filed a separate return.
- (6) At December 31, 2015, net receivable included outstanding advances to Sempra Energy of \$50 million at an interest rate of 0.11 percent.

Revenues and cost of sales from unconsolidated affiliates are as follows:

REVENUES AND COST OF SALES
FROM UNCONSOLIDATED
AFFILIATES
(Dollars in millions)

	Three months ended June 30, 2015	Six months ended June 30, 2015
REVENUES		
Sempra Energy Consolidated	\$5 \$ 8	\$10\$ 16
SDG&E	2	3 5
SoCalGas	18 17	35 36
COST OF SALES		
Sempra Energy Consolidated	\$20\$ 30	\$50\$ 49
SDG&E	16 13	30 18

Guarantees

Sempra Energy has provided guarantees to certain of its solar and wind farm joint ventures and entered into completion guarantees related to the financing of the Cameron LNG JV project, as we discuss above in Note 4 and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

OTHER INCOME, NET

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

OTHER
INCOME,
NET
(Dollars in
millions)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Sempra Energy Consolidated:				
Allowance for equity funds	\$ 30	\$ 31	\$ 57	\$ 58
used during construction				
Investment gains	10	(2)	20	7
(losses) ⁽¹⁾				
Losses on interest rate and foreign exchange instruments, net	(15)	(3)	(12)	(3)
Foreign currency transaction losses	(5)	(2)	(7)	(3)
Sale of other investments	1	6	2	6
Electrical infrastructure relocation income ⁽²⁾	4	3	3	4
Regulatory interest,	1	3	3	2

net(3)				
Sundry	(1)	2	6	5
net				
Total	\$23	\$37	\$72	\$76
SDG&E:				
Allowance				
for				
equity				
funds	\$13	\$10	\$24	\$18
used				
during				
construction				
Regulatory				
interest,	1	3	2	
net(3)				
Sundry	(1)	(2)		(2)
net				
Total	\$13	\$9	\$27	\$18
SoCalGas:				
Allowance				
for				
equity				
funds	\$10	\$10	\$20	\$19
used				
during				
construction				
Sundry	(4)	(1)	(4)	(2)
net				
Total	\$6	\$9	\$16	\$17

Represents investment gains (losses) on dedicated assets in support of our executive retirement and deferred

(1) compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans.

Income at Luz del Sur

(2) associated with the relocation of electrical infrastructure.

(3) Interest on regulatory balancing accounts.

INCOME TAXES

INCOME TAX EXPENSE AND EFFECTIVE
INCOME TAX RATES
(Dollars in millions)

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	Income tax (benefit) expense	Effective income tax rate	Income tax expense	Effective income tax rate
	Three months ended June 30, 2016		2015	
Sempra Energy	\$106	95 %	\$98	25 %
Consolidated				
SDG&E	36		54	29
SoCalGas	100		16	18
	Six months ended June 30, 2016		2015	
Sempra Energy	\$26	10 %	\$261	26 %
Consolidated				
SDG&E	36		142	34
SoCalGas	23		111	28

Sempra Energy, SDG&E and SoCalGas record income taxes for interim periods utilizing a forecasted effective tax rate anticipated for the full year, as required by U.S. GAAP. The income tax effect of items that can be reliably forecasted is factored into the forecasted effective tax rate, and the impact is recognized proportionately over the year. Items that cannot be reliably forecasted (e.g., resolution of prior years' income tax items, remeasurement of deferred tax asset valuation allowances, Mexican currency translation and inflation adjustments, deferred income tax benefits associated with impairment of a book investment and certain impacts of regulatory matters) are recorded in the interim period in which they actually occur, which can result in variability in the effective income tax rate.

Sempra Energy Consolidated

The income tax benefit in the three months ended June 30, 2016 compared to income tax expense in the same period in 2015 was due to a pretax loss in the period in 2016. The pretax loss includes the charges associated with prior years' tax repairs deductions as a result of the 2016 General Rate Case Final Decision (GRC FD) issued by the CPUC in June 2016 affecting the California Utilities and losses from the permanent release of pipeline capacity at Sempra Natural Gas, as we discuss in Notes 10 and 11, respectively. Pretax income in 2015 included the gain from the sale of the Mesquite Power plant discussed in Note 3. Items affecting the effective income tax rate in 2016 include

§ higher flow-through items as a percentage of pretax loss;

§ higher income tax benefit from foreign currency translation and inflation adjustments; and

§ lower U.S. income tax expense as a result of lower planned repatriation of current year earnings from certain non-U.S. subsidiaries.

The decrease in income tax expense in the six months ended June 30, 2016 compared to the same period in 2015 was due to lower pretax income, as we discuss for the second quarter above, and a lower effective income tax rate, primarily due to:

§ higher flow-through items as a percentage of pretax income in 2016; and

§ higher income tax benefit in 2016 from foreign currency translation and inflation adjustments; offset by

§ \$32 million deferred Mexican income tax expense in 2016 on our basis difference in TdM as a result of management's decision to hold the asset for sale. We discuss the planned sale further in Note 3.

SDG&E

The decrease in SDG&E's income tax expense in the three and six months ended June 30, 2016 compared to the same periods in 2015 was primarily due to lower pretax income, offset by a higher effective income tax rate. Pretax income in 2016 includes the charges associated with prior years' tax repairs deductions as a result of the 2016 GRC FD. The higher effective income tax rate was primarily due to:

§ favorable resolution of prior years' income tax items in 2015; and

§ Otay Mesa VIE's pretax loss in 2016 compared to pretax income in 2015, which is excluded from SDG&E's and Sempra Energy Consolidated's taxable income; offset by

§ higher flow-through items as a percentage of pretax income in 2016.

SoCalGas

SoCalGas' income tax benefit in the three months ended June 30, 2016 compared to income tax expense in the same period in 2015 was due to a pretax loss in the period in 2016. The pretax loss includes the charges associated with prior years' tax repairs deductions as a result of the 2016 GRC FD. In addition, the effective income tax rate in 2016 was affected by higher flow-through items as a percentage of pretax loss.

The decrease in SoCalGas' income tax expense in the six months ended June 30, 2016 compared to the same period in 2015 was primarily due to lower pretax income, as discussed for the second quarter above, and a lower effective income tax rate. The lower effective income tax rate was primarily due to higher flow-through items as a percentage of pretax income in 2016.

The 2016 GRC FD requires the establishment of a two-way income tax expense memorandum account for SDG&E and SoCalGas to track any revenue variances resulting from differences between the income tax expense forecasted in the GRC and the income tax expense incurred from 2016 through 2018. The variances to be tracked include tax expense differences relating to

§ net revenue changes,

§ mandatory tax law, tax accounting, tax procedural, or tax policy changes, and

§ elective tax law, tax accounting, tax procedural, or tax policy changes.

The account will remain open, and the balance in the account will be reviewed in subsequent GRC proceedings, until the CPUC decides to close the account. We believe the future disposition of these tracked balances may result in refunds being directed to ratepayers to the extent tax expense incurred is lower than forecasted tax expense as a result of certain flow-through item deductions (see description below) exceeding the amounts forecasted in the GRC process. In the second quarter of 2016, SoCalGas recorded a \$9 million after-tax charge (\$15 million pretax) and SDG&E recorded a negligible amount to earnings for the differences in the income tax expense forecasted in the GRC proceedings and the income tax expense that SDG&E and SoCalGas incurred for the six-month period ended June 30, 2016. We discuss the memo account further in Note 10.

Although the 2016 GRC FD requires the tracking described above for SDG&E and SoCalGas, the California Public Utilities Commission (CPUC) continues to require flow-through rate-making treatment for the current income tax benefit or expense arising from certain property-related and other temporary differences between the treatment for financial reporting and income tax, which will reverse over time. Under the regulatory accounting treatment required for these flow-through temporary differences, deferred income tax assets and liabilities are not recorded to deferred income tax expense, but rather to a regulatory asset or liability, which impacts the current effective income tax rate. As a result, changes in the relative size of these items compared to pretax income, from period to period, can cause variations in the effective income tax rate. The following items are subject to flow-through treatment:

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

§ the equity portion of AFUDC

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

§ utility self-developed software expenditures

§ depreciation on a certain portion of utility plant assets

§ state income taxes

Differences arising from the forecasted amounts for these flow-through items will be tracked in the two-way income tax expense tracking account described above, except for the equity portion of AFUDC, which is not subject to taxation. We expect that amounts recorded in the tracking account may give rise to regulatory liabilities until the CPUC disposes with the account.

The AFUDC related to equity recorded for regulated construction projects at Sempra Mexico is also subject to flow-through treatment.

We provide additional information about our accounting for income taxes in Notes 1 and 6 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 6. DEBT AND CREDIT FACILITIES

LINES OF CREDIT

At June 30, 2016, Sempra Energy Consolidated had an aggregate of \$4.2 billion in three primary committed lines of credit for Sempra Energy, Sempra Global and the California Utilities to provide liquidity and to support commercial paper, the principal terms of which we describe below. Available unused credit on these lines at June 30, 2016 was approximately \$2.5 billion. Our foreign operations have additional general purpose credit facilities aggregating \$1.1 billion at June 30, 2016. Available unused credit on these lines totaled \$843 million at June 30, 2016.

Sempra Energy

Sempra Energy has a \$1 billion, five-year syndicated revolving credit agreement expiring in October 2020. Citibank, N.A. serves as administrative agent for the syndicate of 20 lenders, and no single lender has greater than a 7-percent share.

Borrowings bear interest at benchmark rates plus a margin that varies with Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At June 30, 2016, Sempra Energy was in compliance with this and all other financial covenants under the credit facility. The facility also provides for issuance of up to \$400 million of letters of credit on behalf of Sempra Energy with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

At June 30, 2016, Sempra Energy had no outstanding borrowings or letters of credit supported by the facility.

Sempra Global

Sempra Global has a \$2.21 billion, five-year syndicated revolving credit agreement expiring in October 2020. Citibank, N.A. serves as administrative agent for the syndicate of 20 lenders, and no single lender has greater than a 7-percent share.

Sempra Energy guarantees Sempra Global's obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At June 30, 2016, Sempra Energy was in compliance with this and all other financial covenants under the credit facility.

At June 30, 2016, Sempra Global had \$1.6 billion of commercial paper outstanding supported by the facility and \$643 million of available unused credit on the line.

California Utilities

SDG&E and SoCalGas have a combined \$1 billion, five-year syndicated revolving credit agreement expiring in October 2020. JPMorgan Chase Bank, N.A. serves as administrative agent for the syndicate of 20 lenders, and no single lender has greater than a 7-percent share. The agreement permits each utility to individually borrow up to \$750 million, subject to a combined limit of \$1 billion 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 \$250 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit. Borrowings bear interest at benchmark rates plus a margin that varies with 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. At June 30, 2016, the California Utilities were in compliance with this and all other financial covenants under the credit facility.

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

At June 30, 2016, SDG&E had \$54 million of commercial paper outstanding and SoCalGas had no outstanding borrowings supported by the facility. Available unused credit on the line at June 30, 2016 was \$696 million and \$750 million at SDG&E and SoCalGas, respectively, subject to the \$1 billion maximum combined credit limit.

Sempra South American Utilities

Sempra South American Utilities has Peruvian Sol- and Chilean Peso-denominated credit facilities aggregating \$547 million U.S. dollar equivalent, expiring between 2016 and 2018. The credit facilities were entered into to finance working capital and for general corporate purposes. The Peruvian facilities require a debt to equity ratio of no more than 170 percent. At June 30, 2016, Sempra South American Utilities was in compliance with this financial covenant under the credit facilities. At June 30, 2016, Sempra South American Utilities had outstanding borrowings of \$167 million and bank guarantees of \$16 million against the Peruvian facilities, and \$252 million of available unused credit. There were no outstanding borrowings at June 30, 2016 under the \$112 million Chilean facility.

Sempra Mexico

IEnova has a \$600 million, five-year revolving credit agreement expiring in August 2020. The lenders are Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, Banco Nacional de México, S.A. Integrante del Grupo Financiero Banamex, The Bank of Tokyo - Mitsubishi UFJ, LTD., The Bank of Nova Scotia and Sumitomo Mitsui Banking Corporation. At June 30, 2016, IEnova had \$121 million of outstanding borrowings supported by the facility, and available unused credit on the line was \$479 million.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt at Sempra Energy Consolidated were 1.21 percent and 1.09 percent at June 30, 2016 and December 31, 2015, respectively. The weighted average interest rates on total short-term debt at SDG&E were 1.06 percent and 1.01 percent at June 30, 2016 and December 31, 2015, respectively.

LONG-TERM DEBT

SDG&E

In May 2016, SDG&E publicly offered and sold \$500 million of 2.50-percent first mortgage bonds maturing in 2026. SDG&E used the proceeds from the offering to redeem, prior to a scheduled maturity in 2027, \$105 million aggregate principal amount of 5-percent tax-exempt industrial development revenue bonds, to repay outstanding commercial paper and for other general corporate purposes.

SoCalGas

In June 2016, SoCalGas publicly offered and sold \$500 million of 2.60-percent first mortgage bonds maturing in 2026. SoCalGas used the proceeds from the offering to repay outstanding commercial paper and for other general corporate purposes.

INTEREST RATE SWAPS

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

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative instruments primarily to manage exposures arising in the normal course of business. Our principal exposures are commodity market risk, benchmark interest rate risk and foreign exchange rate exposures. Our use of derivatives for these risks is integrated into the economic management of our anticipated revenues, anticipated expenses, assets and liabilities. Derivatives may be effective in mitigating these risks (1) that could lead to declines in anticipated revenues or increases in anticipated expenses, or (2) that our asset values may fall or our liabilities increase. Accordingly, our derivative activity summarized below generally represents an impact that is intended to offset associated revenues, expenses, assets or liabilities that are not included in the tables below.

In certain cases, we apply the normal purchase or sale exception to derivative instruments 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.

In all other cases, we record derivatives at fair value on the Condensed Consolidated Balance Sheets. We designate each derivative as (1) a cash flow hedge, (2) a fair value hedge, or (3) undesignated. Depending on the applicability of hedge accounting and, for the California Utilities and other operations subject to regulatory accounting, the requirement to pass impacts through to customers, the impact of derivative instruments may be offset in other comprehensive income (loss) (cash flow hedge), on the balance sheet (fair value hedges and regulatory offsets), or recognized in earnings. We classify cash flows from the settlements of derivative instruments as operating activities on the Condensed Consolidated Statements of Cash Flows.

HEDGE ACCOUNTING

We may designate a derivative as a cash flow hedging instrument if it effectively converts anticipated cash flows associated with revenues or expenses to a fixed dollar amount. We may utilize cash flow hedge accounting for derivative commodity instruments, foreign currency instruments and interest rate instruments. Designating cash flow hedges is dependent on the business context in which the instrument is being used, the effectiveness of the instrument in offsetting the risk that the future cash flows of a given revenue or expense item may vary, and other criteria. We may designate an interest rate derivative as a fair value hedging instrument if it effectively converts our own debt from a fixed interest rate to a variable rate. The combination of the derivative and debt instrument results in fixing that portion of the fair value of the debt that is related to benchmark interest rates. Designating fair value hedges is dependent on the instrument being used, the effectiveness of the instrument in offsetting changes in the fair value of our debt instruments, and other criteria.

ENERGY DERIVATIVES

Our market risk is primarily related to natural gas and electricity price volatility and the specific physical locations where we transact. We use energy derivatives to manage these risks. The use of energy derivatives in our various businesses depends on the particular energy market, and the operating and regulatory environments applicable to the business, as follows:

The California Utilities use energy derivatives, both natural gas and electricity, for the benefit of customers, with the objective of managing price risk and basis risks, and stabilizing and lowering natural gas and electricity costs. These derivatives include fixed price natural gas and electricity positions, options, and basis risk instruments, which are § either exchange-traded or over-the-counter financial instruments, or bilateral physical transactions. This activity is governed by risk management and transacting activity plans that have been filed with and approved by the CPUC. Natural gas and electricity derivative activities are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Net commodity cost impacts on the Condensed Consolidated Statements of Operations are reflected in Cost of Electric Fuel and Purchased Power or in Cost of Natural Gas.

SDG&E is allocated and may purchase congestion revenue rights (CRRs), which serve to reduce the regional electricity price volatility risk that may result from local transmission capacity constraints. Unrealized gains and losses do not impact earnings, as they are offset by regulatory account balances. Realized gains and losses associated with CRRs, which are recoverable in rates, are recorded in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations.

Sempra Mexico, Sempra Natural Gas, and Sempra Renewables may use natural gas and electricity derivatives, as appropriate, to optimize the earnings of their assets which support the following businesses: liquefied natural gas (LNG), natural gas transportation and storage, and power generation. Gains and losses associated with undesignated derivatives are recognized in Energy-Related Businesses Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations. Certain of these derivatives may also be designated as cash flow hedges. Sempra Mexico also uses natural gas energy derivatives with the objective of managing price risk and lowering natural gas prices at its Mexican distribution operations. These derivatives, which are recorded as commodity costs that are offset by regulatory account balances and recovered in rates, are recognized in Cost of Natural Gas on the Condensed Consolidated Statements of Operations.

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

We summarize net energy derivative volumes at June 30, 2016 and December 31, 2015 as follows:

NET ENERGY DERIVATIVE VOLUMES

(Quantities in millions)

June 30, December 31,

Segment and Unit of measure	2016	2015
Commodity		
California Utilities:		
SDG&E:		
gas		
Natural MMBtu(1)	72	70
Electricity(2)	1	1
Congestion revenue rights	30	36
SoCalGas		
– natural gas		1
Energy-Related Businesses:		
Sempra Natural Gas		
natural gas	30	43

(1) Million British thermal units

(2) Megawatt hours

In addition to the amounts noted above, we frequently use commodity derivatives to manage risks associated with the physical locations of contractual obligations and assets, such as natural gas purchases and sales.

INTEREST RATE DERIVATIVES

We are exposed to interest rates primarily as a result of our current and expected use of financing. We periodically enter into interest rate derivative agreements intended to moderate our exposure to interest rates and to lower our overall costs of borrowing. We utilize interest rate swaps typically designated as fair value hedges, as a means to achieve our targeted level of variable rate debt as a percent of total debt. In addition, we may utilize interest rate swaps, typically designated as cash flow hedges, to lock in interest rates on outstanding debt or in anticipation of future financings.

Interest rate derivatives are utilized by the California Utilities as well as by other Sempra Energy subsidiaries and joint ventures. Interest rate derivatives are generally accounted for as hedges, and although the California Utilities generally recover borrowing costs in rates over time, the use of interest rate derivatives is subject to certain regulatory constraints, and the impact of interest rate derivatives may not be recovered from customers as timely as described above with regard to energy derivatives. Separately, Otay Mesa VIE has entered into interest rate swap agreements, designated as cash flow hedges, to moderate its exposure to interest rate changes.

At June 30, 2016 and December 31, 2015, the net notional amounts of our interest rate derivatives, excluding joint ventures and cross-currency derivatives discussed below, were:

INTEREST RATE DERIVATIVES

(Dollars in millions)

	June 30, 2016	December 31, 2015
	Notional debt Maturities	Notional debt Maturities
Sempra Energy Consolidated:		
Cash flow hedges(1)	\$377 2016-2028	\$384 2016-2028
Fair value hedges		300 2016
SDG&E:		
Cash flow hedge(1)	310 2016-2019	315 2016-2019
(1) Includes Otay Mesa VIE. All of SDG&E's interest rate derivatives relate to Otay Mesa VIE.		

FOREIGN CURRENCY DERIVATIVES

We utilize cross-currency swaps to hedge exposure related to Mexican peso-denominated debt at our Mexican subsidiaries and joint ventures. These cash flow hedges exchange our Mexican-peso denominated principal and interest payments into the U.S. dollar and swap Mexican variable interest rates for U.S. fixed interest rates. We are also exposed to exchange rate movements at our Mexican subsidiaries and joint ventures, which have U.S. dollar denominated cash balances, receivables, payables and debt (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. They also have deferred income tax assets and liabilities denominated in the Mexican peso, which must be translated to U.S. dollars for financial reporting purposes. In addition, monetary assets and liabilities and certain nonmonetary assets and liabilities are adjusted for

Mexican inflation for Mexican income tax purposes. We utilize foreign currency derivatives as a means to manage the risk of exposure to significant fluctuations in our income tax expense and equity earnings from these impacts. In January 2016, we entered into foreign currency derivatives with a notional amount totaling \$550 million.

At June 30, 2016 and December 31, 2015, the net notional amounts of our foreign currency derivatives, excluding joint ventures, were:

FOREIGN CURRENCY DERIVATIVES

(Dollars in millions)

June 30, 2016	December 31, 2015
Notional debt Maturities	Notional debt Maturities
Sempra Mexico:	
Cross-currency swaps	\$408 2018-2023
Other foreign currency derivatives	\$142 2016

In addition, Sempra South American Utilities uses foreign currency derivatives at its subsidiaries and joint ventures as a means to manage foreign currency rate risk. We discuss such swaps at Chilquinta Energía's Eletrans joint venture investment in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

FINANCIAL STATEMENT PRESENTATION

The Condensed Consolidated Balance Sheets reflect the offsetting of net derivative positions and cash collateral with the same counterparty when a legal right of offset exists. The following tables provide the fair values of derivative instruments on the Condensed Consolidated Balance Sheets at June 30, 2016 and December 31, 2015, including the amount of cash collateral receivables that were not offset, as the cash collateral is in excess of liability positions.

DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

June 30, 2016		Deferred credits and other liabilities:
Current assets:	Current liabilities:	liabilities:
Fixed-price contracts and other derivatives(1)	Fixed-price contracts and other assets: Sundry	Fixed-price contracts and other derivatives

Sempra Energy Consolidated:
 Derivatives designated as hedging instruments:

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Interest rate and foreign exchange instruments ⁽³⁾	\$1	\$	\$(15)	\$(184)
Commodity contracts not subject to rate recovery			(5)	
Derivatives not designated as hedging instruments:				
Interest rate and foreign exchange instruments			(12)	
Commodity contracts not subject to rate recovery	208	22	(227)	(17)
Associated offsetting commodity contracts	(199)	(13)	199	13
Associated offsetting cash collateral			30	1
Commodity contracts subject to rate recovery	18	52	(35)	(48)
Associated offsetting commodity contracts	(4)	(2)	4	2
Associated offsetting cash collateral			13	15
Net amounts presented on the balance sheet	24	59	(48)	(218)
Additional cash collateral for commodity contracts not subject to rate recovery	14			
Additional cash collateral for commodity contracts subject to rate recovery	27			
Total ⁽⁴⁾	\$65	\$59	\$(48)	\$(218)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments ⁽³⁾	\$	\$	\$(14)	\$(23)
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	16	52	(32)	(48)
Associated offsetting commodity contracts	(3)	(2)	3	2
Associated offsetting cash collateral			12	15
Net amounts presented on the balance sheet	13	50	(31)	(54)
Additional cash collateral for commodity contracts subject to rate recovery	26			
Total ⁽⁴⁾	\$39	\$50	\$(31)	\$(54)
SoCalGas:				
Derivatives not designated as hedging instruments:				
Commodity contracts not subject to rate recovery	\$	\$	\$(1)	\$
Associated offsetting cash collateral			1	
Commodity contracts subject to rate recovery	2		(3)	
Associated offsetting commodity contracts	(1)		1	
Associated offsetting cash collateral			1	
Net amounts presented on the balance sheet	1		(1)	
Additional cash collateral for commodity contracts not subject to rate recovery	1			
Additional cash collateral for commodity contracts subject to rate recovery	1			
Total	\$3	\$	\$(1)	\$

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

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

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

(4) Normal purchase contracts previously measured at fair value are excluded.

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

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December 31, 2015

	Current assets: Fixed-price contracts and other derivatives(1)	Other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate and foreign exchange instruments(3)	\$4	\$1	\$(15)	\$(156)
Commodity contracts not subject to rate recovery	13			
Derivatives not designated as hedging instruments:				
Commodity contracts not subject to rate recovery	245	32	(239)	(21)
Associated offsetting commodity contracts	(232)	(20)	232	20
Associated offsetting cash collateral	(6)		4	
Commodity contracts subject to rate recovery	28	49	(61)	(64)
Associated offsetting commodity contracts	(2)	(2)	2	2
Associated offsetting cash collateral			28	26
Net amounts presented on the balance sheet	50	60	(49)	(193)
Additional cash collateral for commodity contracts not subject to rate recovery	2			
Additional cash collateral for commodity contracts subject to rate recovery	28			
Total(4)	\$80	\$60	\$(49)	\$(193)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	\$	\$	\$(14)	\$(23)
Derivatives not designated as hedging instruments:				
Commodity contracts not subject to rate recovery			(1)	
Associated offsetting cash collateral			1	
Commodity contracts subject to rate recovery	27	49	(60)	(64)
Associated offsetting commodity contracts	(2)	(2)	2	2
Associated offsetting cash collateral			28	26
Net amounts presented on the balance sheet	25	47	(44)	(59)
Additional cash collateral for commodity contracts not subject to rate recovery	1			
Additional cash collateral for commodity contracts subject to rate recovery	27			
Total(4)	\$53	\$47	\$(44)	\$(59)
SoCalGas:				
Derivatives not designated as hedging instruments:				
Commodity contracts not subject to rate recovery	\$	\$	\$(1)	\$
Associated offsetting cash collateral			1	
Commodity contracts subject to rate recovery	1		(1)	
Net amounts presented on the balance sheet	1		(1)	
Additional cash collateral for commodity contracts subject to rate recovery	1			
Total	\$2	\$	\$(1)	\$

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

- (2) Included in Current Liabilities: Other for SoCalGas.
- (3) Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.
- (4) Normal purchase contracts previously measured at fair value are excluded.

The effects of derivative instruments designated as hedges on the Condensed Consolidated Statements of Operations and in OCI and AOCI for the three and six months ended June 30 were:

FAIR VALUE HEDGE IMPACTS

(Dollars in millions)

Location	Pretax gain (loss) on derivatives recognized in earnings			
	Three months ended June 30, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Six months ended June 30, 2015
Sempra Energy Consolidated:				
Interest rate Interest Expense instruments	\$1	\$2	\$3	\$4
Interest rate Other Income, Net instruments	(2)	(3)	(2)	(2)
Total	\$(1)	\$(1)	\$1	\$2

(1) There was no hedge ineffectiveness in either the three months or six months ended June 30, 2016 or 2015. All other changes in the fair value of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt and are recorded in Other Income, Net.

CASH FLOW HEDGE IMPACTS

(Dollars in millions)

Pretax gain (loss) recognized in OCI	Pretax (loss) gain reclassified from AOCI into earnings
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(effective portion) Three months ended June 30, 2016	2015	Location	(effective portion) Three months ended June 30, 2016	2015
Sempra Energy Consolidated:				
Interest rate and foreign exchange instruments(1)				
\$1	\$6	Interest Expense	\$ (3)	\$ (3)
Interest rate (70) instruments				
89		Equity Earnings (Losses), Before Income Tax	(2)	(3)
Interest rate and foreign exchange instruments (15)				
		Equity Earnings, Net of Income Tax	(5)	
Commodity contracts not subject to recovery TS(102)				
(5)	1	Revenues: Energy-Related Businesses		
\$96			\$ (10)	\$ (6)
SDG&E: Interest rate \$ (2) instruments(1)(2)				
		Interest Expense	\$ (3)	\$ (3)
Six months ended June 30, 2016				
2015				
Location				
Sempra Energy Consolidated:				
Interest rate and foreign exchange				
\$ (10)	\$ (12)	Interest Expense	\$ (7)	\$ (9)

exchange instruments(1)		Equity Earnings (Losses),		
Interest rate (207) 11 instruments		Before Income Tax	(5)	(6)
Interest rate and foreign exchange instruments (33)		Equity Earnings,		
Commodity contracts not subject to recovery rate (4) SDG&E: Interest rate \$(7) \$(5) instruments(1)(2)		Net of Income Tax	(6)	
		Revenues: Energy-Related Businesses	7	7
			\$ (11)	\$ (8)
		Interest Expense	\$ (6)	\$ (6)

Amounts include Otay Mesa VIE. All of SDG&E's (1) interest rate derivative activity relates to Otay Mesa VIE.

Amounts include negligible hedge ineffectiveness in (2) the three months and six months ended June 30, 2016 and 2015.

For Sempra Energy Consolidated, we expect that losses of \$23 million, which are net of income tax benefit, that are currently recorded in AOCI (including \$13 million in noncontrolling interests, substantially all of which is related to Otay Mesa VIE at SDG&E) related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings. Actual amounts ultimately reclassified into earnings depend on the interest rates in effect when derivative contracts that are currently outstanding mature.

SoCalGas expects that negligible losses, which are net of income tax benefit, that are currently recorded in AOCI related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings.

For all forecasted transactions, the maximum remaining term over which we are hedging exposure to the variability of cash flows at June 30, 2016 is approximately 13 years and 3 years for Sempra Energy Consolidated and SDG&E, respectively. The maximum remaining term for which we are hedging exposure to the variability of cash flows at our equity method investees is 19 years.

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

UNDESIGNATED DERIVATIVE IMPACTS (Dollars in millions)

Location	Pretax (loss) gain on derivatives recognized in earnings			
	Three months ended June 30, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Six months ended June 30, 2015
Sempra Energy Consolidated:				
Foreign exchange instruments				
Change in Income, Net	\$(15)	\$(3)	\$(12)	\$(3)
Foreign exchange instruments				
Change in Earnings, Net of Income Tax			2	(1)
Commodity contracts not subject to rate recovery				
Revenues: Energy-Related				
Commodity contracts not subject to rate recovery				
Operation and Maintenance	1	1	1	1
Commodity contracts not subject to rate recovery				
Cost of Electric Fuel and Purchased Power	40	(53)	28	(73)
Commodity contracts not subject to rate recovery				
Cost of Natural Gas	(1)		(2)	1
Total	\$1	\$(46)	\$(12)	\$(63)
SDG&E:				
Commodity contracts not subject to rate recovery				
Cost of Electric Fuel and Purchased Power	\$40	\$(53)	\$28	\$(73)

recovery				
SoCalGas:				
Commodity				
contracts				
not				
subject				
to				
Operation and Maintenance	\$	\$1	\$	\$1
recovery				
Commodity				
contracts				
subject				
to				
Cost of Natural Gas	(1)	(2)	1	
recovery				
Total	\$(1)	\$1	\$(2)	\$2

CONTINGENT FEATURES

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

For Sempra Energy Consolidated, the total fair value of this group of derivative instruments in a net liability position is \$6 million at both June 30, 2016 and December 31, 2015. At June 30, 2016, if the credit ratings of Sempra Energy were reduced below investment grade, \$8 million of additional assets could be required to be posted as collateral for these derivative contracts.

For SDG&E, the total fair value of this group of derivative instruments in a net liability position at June 30, 2016 and December 31, 2015 is \$2 million and \$5 million, respectively. At June 30, 2016, if the credit ratings of SDG&E were reduced below investment grade, \$4 million of additional assets could be required to be posted as collateral for these derivative contracts.

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

NOTE 8. FAIR VALUE MEASUREMENTS

We discuss the valuation techniques and inputs we use to measure fair value and the definition of the three levels of the fair value hierarchy in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. We have not changed the valuation techniques or types of inputs we use to measure fair value during the six months ended June 30, 2016.

Recurring Fair Value Measures

The three tables below, by level within the fair value hierarchy, set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2016 and December 31, 2015. We classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect

the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

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

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

Our financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2016 and December 31, 2015 in the tables below include the following:

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

For commodity contracts, interest rate derivatives and foreign exchange instruments, we primarily use a market approach with market participant assumptions to value these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable. We have exchange-traded derivatives that are valued based on quoted prices in active markets for the identical instruments (Level 1). We also may have other commodity derivatives that are valued using industry standard models that consider quoted forward prices for commodities, time value, current market and contractual prices for the underlying instruments, volatility factors, and other relevant economic measures (Level 2). Level 3 recurring items relate to CRRs and long-term, fixed-price electricity positions at SDG&E, as we discuss below under "Level 3 Information."

Rabbi Trust investments include marketable securities that we value using a market approach based on closing prices reported in the active market in which the identical security is traded (Level 1). These investments in marketable securities were negligible at both June 30, 2016 and December 31, 2015.

There were no transfers into or out of Level 1, Level 2 or Level 3 for Sempra Energy Consolidated, SDG&E or SoCalGas during the periods presented.

RECURRING FAIR VALUE MEASURES – SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Fair value at June 30, 2016				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$632	\$	\$	\$	\$632
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies	52	52			104
Municipal bonds		163			163
Other securities		192			192
Total debt securities	52	407			459
Total nuclear decommissioning trusts(2)	684	407			1,091
Interest rate and foreign exchange instruments		1			1
Commodity contracts not subject to rate recovery	1	17		14	32

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Commodity contracts subject to rate recovery		1	63	27	91
Total	\$685	\$426	\$63	\$41	\$1,215

Liabilities:

Interest rate and foreign exchange instruments	\$	\$211	\$	\$	\$211
Commodity contracts not subject to rate recovery	32	5		(31)	6
Commodity contracts subject to rate recovery	1	37	39	(28)	49
Total	\$33	\$253	\$39	\$(59)	\$266

Fair value at December 31, 2015

Level 1 Level 2 Level 3 Netting(1) Total

Assets:

Nuclear decommissioning trusts:					
Equity securities	\$619	\$	\$	\$	\$619
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies	47	44			91
Municipal bonds		156			156
Other securities		182			182
Total debt securities	47	382			429
Total nuclear decommissioning trusts(2)	666	382			1,048
Interest rate and foreign exchange instruments		5			5
Commodity contracts not subject to rate recovery	22	16		(4)	34
Commodity contracts subject to rate recovery		1	72	28	101
Total	\$688	\$404	\$72	\$24	\$1,188

Liabilities:

Interest rate and foreign exchange instruments	\$	\$171	\$	\$	\$171
Commodity contracts not subject to rate recovery	5	3		(4)	4
Commodity contracts subject to rate recovery		68	53	(54)	67
Total	\$5	\$242	\$53	\$(58)	\$242

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

(2) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES – SDG&E

(Dollars in millions)

Fair value at June 30, 2016

Level 1 Level 2 Level 3 Netting(1) Total

Assets:

Nuclear decommissioning trusts:					
Equity securities	\$632	\$	\$	\$	\$632
Debt securities:					

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Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies	52	52			104
Municipal bonds		163			163
Other securities		192			192
Total debt securities	52	407			459
Total nuclear decommissioning trusts(2)	684	407			1,091
Commodity contracts subject to rate recovery			63	26	89
Total	\$684	\$407	\$63	\$26	\$1,180

Liabilities:

Interest rate instruments	\$	\$37	\$	\$	\$37
Commodity contracts subject to rate recovery		36	39	(27)	48
Total	\$	\$73	\$39	\$(27)	\$85

Fair value at December 31, 2015

Level 1 Level 2 Level 3 Netting(1) Total

Assets:

Nuclear decommissioning trusts:					
Equity securities	\$619	\$	\$	\$	\$619
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies	47	44			91
Municipal bonds		156			156
Other securities		182			182
Total debt securities	47	382			429
Total nuclear decommissioning trusts(2)	666	382			1,048
Commodity contracts not subject to rate recovery				1	1
Commodity contracts subject to rate recovery			72	27	99
Total	\$666	\$382	\$72	\$28	\$1,148

Liabilities:

Interest rate instruments	\$	\$37	\$	\$	\$37
Commodity contracts not subject to rate recovery	1			(1)	
Commodity contracts subject to rate recovery		67	53	(54)	66
Total	\$1	\$104	\$53	\$(55)	\$103

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

(2) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES –
SOCALGAS

(Dollars in millions)

Fair value at June 30, 2016

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	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Commodity contracts not subject to rate recovery					
	\$	\$	\$1		\$1
Commodity contracts subject to rate recovery					
	1		1		2
Total	\$1	\$	\$2		\$3

Liabilities:					
Commodity contracts not subject to rate recovery					
	\$	\$	\$(1)		\$
Commodity contracts subject to rate recovery					
	1		(1)		1
Total	\$2	\$1	\$	\$(2)	\$1

Fair value at December 31, 2015

	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Commodity contracts subject to rate recovery					
	\$1	\$	\$1		\$2
Total	\$1	\$	\$1		\$2
Liabilities:					
Commodity contracts not subject to rate recovery					
	\$	\$	\$(1)		\$

recovery

Commodity

contracts

subject

1

1

to

rate

recovery

Total \$ 1 \$ 1 \$ \$(1) \$ 1

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

Level 3 Information

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

LEVEL 3 RECONCILIATIONS

(Dollars in millions)

	Three months ended June 30, 2016	2015
Balance as of April 1	\$ 11	\$ 102
Realized and unrealized gains (losses)	8	(60)
Allocated transmission instruments		1
Settlements	5	(1)
Balance as of June 30	\$ 24	\$ 42
Change in unrealized gains relating to instruments still held at June 30	\$ 9	\$ 45
	Six months ended June 30, 2016	2015
Balance as of January 1	\$ 19	\$ 107
Realized and unrealized gains (losses)	7	(54)
Allocated transmission instruments		1
Settlements	(2)	(12)
Balance as of June 30	\$ 24	\$ 42
Change in unrealized gains relating to instruments still held at June 30	\$ 9	\$ 46

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

CRRs are recorded at fair value based almost entirely on the most current auction prices published by the California Independent System Operator (CAISO), an objective source. Annual auction prices are published once a year, typically in the middle of November, and remain in effect for the following year. The impact associated with discounting is negligible. Because auction prices are a less observable input, these instruments are classified as Level 3. The fair value of these instruments is derived from auction price differences between two locations. From January 1, 2016 to December 31, 2016, the auction prices range from \$(24) per MWh to \$10 per MWh at a given location, and from January 1, 2015 to December 31, 2015, the auction prices ranged from \$(16) per MWh to \$8 per MWh at a given location. Positive values between two locations represent expected future reductions in congestion costs, whereas negative values between two locations represent expected future charges. Valuation of our CRRs is sensitive to a change in auction price. If auction prices at one location increase (decrease) relative to another location, this could result in a higher (lower) fair value measurement. We summarize CRR volumes in Note 7.

Long-term, fixed-price electricity positions that are valued using significant unobservable data are classified as Level 3 because the contract terms relate to a delivery location or tenor for which observable market rate information is not available. The fair value of the net electricity positions classified as Level 3 is derived from a discounted cash flow model using market electricity forward price inputs. At June 30, 2016, these electricity forward prices range from \$21.55 per MWh to \$62.71 per MWh. A significant increase or decrease in market electricity forward prices would result in a significantly higher or lower fair value, respectively. We summarize long-term, fixed-price electricity position volumes in Note 7.

Realized gains and losses associated with CRRs and long-term electricity positions, which are recoverable in rates, are recorded in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations. Unrealized gains and losses are recorded as regulatory assets and liabilities and therefore also do not affect earnings.

Fair Value of Financial Instruments

The fair values of certain of our financial instruments (cash, temporary investments, accounts and notes receivable, current amounts due to/from unconsolidated affiliates, dividends and accounts payable, short-term debt and customer deposits) approximate their carrying amounts because of the short-term nature of these instruments. Investments in life insurance contracts that we hold in support of our Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans are carried at cash surrender values, which represent the amount of cash that could be realized under the contracts. The following table provides the carrying amounts and fair values of certain other financial instruments that are not recorded at fair value on the Condensed Consolidated Balance Sheets at June 30, 2016 and December 31, 2015:

FAIR VALUE OF FINANCIAL INSTRUMENTS

(Dollars in millions)

June 30, 2016

Carrying Fair value

amount	Level 1	Level 2	Level 3	Total
--------	------------	---------	------------	-------

Sempra

Energy

Consolidated:

Noncurrent due from unconsolidated affiliates(1)	\$ 179	\$ 94	\$ 77	\$ 171
Total long-term debt(2)(3)	13,811	14,933	572	15,505
Preferred stock of subsidiary SDG&E:				
Total long-term debt(3)(4)	\$ 14,677	\$ 5,055	\$ 310	\$ 5,365
SoCalGas:				
Total long-term debt(5)	\$ 6,009	\$ 3,335	\$	\$ 3,335
Preferred stock	22	27		27

December 31, 2015

Carrying Fair value

amount	Level 1	Level 2	Level 3	Total
--------	---------	---------	---------	-------

Sempra Energy Consolidated:				
Noncurrent due from unconsolidated affiliates(1)	\$ 175	\$ 97	\$ 69	\$ 166
Total long-term debt(2)(3)	13,761	13,985	648	14,633
Preferred stock of subsidiary SDG&E:				
Total long-term debt(3)(4)	\$ 14,304	\$ 4,355	\$ 315	\$ 4,670
SoCalGas:				
Total long-term debt(5)	\$ 6,513	\$ 2,621	\$	\$ 2,621
Preferred stock	22	25		25

Preferred
stock

- Excluding accumulated interest
- (1) outstanding of \$13 million and \$11 million at June 30, 2016 and December 31, 2015, respectively. Before reductions for unamortized discount (net of premium) and debt issuance costs of \$111 million and \$107 million at June 30, 2016 and December 31, 2015, respectively, and excluding build-to-suit and capital lease obligations of \$385 million and \$387 million at June 30, 2016 and December 31, 2015, respectively. We discuss our long-term debt in Note 6 above and in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.
- (2) Level 3 instruments include \$310 million and \$315 million at June 30, 2016 and December 31, 2015, respectively, related to Otay Mesa VIE.
- (3) Before reductions for unamortized discount and debt issuance costs of \$47 million and \$43 million at June 30, 2016 and December 31, 2015, respectively, and excluding capital lease obligations of \$242 million and \$244 million at June 30, 2016 and December 31, 2015, respectively.
- (4) Before reductions for unamortized discount and debt issuance costs of \$28 million and \$24 million at June 30, 2016 and December 31, 2015, respectively, and excluding capital lease obligations of \$1 million both at June 30, 2016 and December 31, 2015.
- (5)

We determine the fair value of certain noncurrent amounts due from unconsolidated affiliates, long-term debt and preferred stock based on a market approach using quoted market prices for identical or similar securities in thinly-traded markets (Level 2). We value other noncurrent amounts due from unconsolidated affiliates of Sempra South American Utilities using a perpetuity approach based on the obligation's fixed interest rate, the absence of a stated maturity date and a discount rate reflecting local borrowing costs (Level 3). We value other long-term debt using an income approach based on the present value of estimated future cash flows discounted at rates available for similar securities (Level 3).

We provide the fair values for the securities held in the nuclear decommissioning trust funds related to the San Onofre Nuclear Generating Station (SONGS) in Note 9 below.

Non-Recurring Fair Value Measures – Sempra Energy Consolidated

Sempra Natural Gas – Rockies Express

As we discuss in Note 3, in March 2016, Sempra Natural Gas agreed to sell its 25-percent interest in Rockies Express for cash consideration of \$440 million, subject to adjustment at closing. The transaction closed in May 2016. In March 2016, we recorded a noncash impairment of our investment in Rockies Express of \$44 million (\$27 million after-tax). The charge is included in Equity Earnings, Before Income Tax, on the Condensed Consolidated Statement of Operations for the six months ended June 30, 2016. We considered the sale price for our equity interest in Rockies Express to be a market participants' view of the total value of Rockies Express and measured the fair value of our investment based on the equity sale price. Use of this market participant input as the indicator of fair value is a Level 2 measurement in the fair value hierarchy.

The following table summarizes significant inputs impacting non-recurring fair value measures related to our investment in Rockies Express:

NON-RECURRING FAIR VALUE MEASURES – SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

Estimated fair value	Valuation technique	Fair value hierarchy	% of fair value measurement	Inputs used to develop measurement	Range of inputs
\$440 (1)	Market approach	Level 2	100%	Equity sale price	100%

Investment in

Rockies Express

(1) At measurement date of March 29, 2016.

NOTE 9. SAN ONOFRE NUCLEAR GENERATING STATION (SONGS)

SDG&E has a 20-percent ownership interest in SONGS, a nuclear generating facility near San Clemente, California, which ceased operations in June 2013. On June 6, 2013, after an extended outage beginning in 2012, Southern California Edison Company (Edison), the majority owner and operator of SONGS, notified SDG&E that it had reached a decision to permanently retire SONGS and seek approval from the Nuclear Regulatory Commission (NRC) to start the decommissioning activities for the entire facility. SONGS is subject to the jurisdiction of the NRC and the CPUC.

SDG&E, and each of the other owners, holds its undivided interest as a tenant in common in the property. Each owner is responsible for financing its share of expenses and capital expenditures. SDG&E's share of operating expenses is included in Sempra Energy's and SDG&E's Condensed Consolidated Statements of Operations.

SONGS Steam Generator Replacement Project

As part of the Steam Generator Replacement Project (SGRP), the steam generators were replaced in SONGS Units 2 and 3, and the Units returned to service in 2010 and 2011, respectively. Both Units were shut down in early 2012 after a water leak occurred in the Unit 3 steam generator. Edison concluded that the leak was due to unexpected wear from

tube-to-tube contact. At the time the leak was identified, Edison also inspected and tested Unit 2 and subsequently found unexpected tube wear in Unit 2's steam generator. These issues with the steam generators ultimately resulted in Edison's decision to permanently retire SONGS.

The replacement steam generators were designed and provided by Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). In July 2013, SDG&E filed a lawsuit against MHI seeking to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators. In October 2013, Edison instituted binding arbitration proceedings against MHI seeking damages as well. SDG&E is participating in the arbitration as a claimant and respondent. We discuss these proceedings in Note 11.

Settlement Agreement to Resolve the CPUC's Order Instituting Investigation (OII) into the SONGS Outage (SONGS OII)

In November 2012, in response to the outage, the CPUC issued the SONGS OII, which was intended to determine the ultimate recovery of the investment in SONGS and the costs incurred since the commencement of this outage, including purchased replacement power costs, which are typically recovered through the Energy Resource Recovery Account (ERRA).

In April 2014, SDG&E filed with the CPUC in the SONGS OII proceeding a Settlement Agreement, along with Edison, The Utility Reform Network (TURN), the CPUC Office of Ratepayer Advocates (ORA) and two other intervenors who joined the Settlement Agreement (collectively, the Settling Parties).

In September 2014, the Settling Parties executed an Amended and Restated Settlement Agreement (Amended Settlement Agreement), which amended the Settlement Agreement, and in November 2014, the CPUC issued a final decision approving the Amended Settlement Agreement. The Amended Settlement Agreement does not affect on-going or future proceedings before the NRC, or litigation or arbitration related to potential future recoveries from third parties (except for the allocation to ratepayers of any recoveries as described below) or proceedings addressing decommissioning activities and costs. We discuss the terms of the Amended Settlement Agreement and related filings in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

In April 2015, a petition for modification (PFM) was filed with the CPUC by Alliance for Nuclear Responsibility (A4NR), an intervenor in the SONGS OII proceeding, asking the CPUC to set aside its decision approving the Amended Settlement Agreement and reopen the SONGS OII proceeding. In June 2015, TURN, a party to the Amended Settlement Agreement, filed a response supporting the A4NR petition. TURN does not question the merits of the Amended Settlement Agreement, but is concerned that certain allegations regarding Edison raised by A4NR have undermined the public's confidence in the regulatory process. SDG&E has responded that TURN's concerns regarding public perception do not impact the reasonableness of the Amended Settlement Agreement and are insufficient to overturn it.

In August 2015, ORA, also a party to the Amended Settlement Agreement, filed a PFM with the CPUC, withdrawing its support for the Amended Settlement Agreement and asking the CPUC to reopen the SONGS OII proceeding. The ORA does not question the merits of the Amended Settlement Agreement, but is concerned with the CPUC's approach toward recent disclosures concerning Edison ex parte communications with the CPUC. SDG&E responded that the ORA's PFM is insufficient to overturn the Amended Settlement Agreement, because the ORA fails to make a case that the Amended Settlement Agreement is no longer in the public interest.

In May 2016, the CPUC issued a ruling reopening the record of the OII to address the issue of whether the Amended Settlement Agreement is reasonable and in the public interest. In accordance with the ruling, Edison and SDG&E filed separate reports with the CPUC in June 2016 on the Amended Settlement Agreement and the status of its implementation, and filed separate legal briefs in July 2016 asserting that the Amended Settlement Agreement is reasonable and in the public interest.

Accounting and Financial Impacts

Through December 31, 2015 and June 30, 2016, the cumulative after-tax loss from plant closure recorded by Sempra Energy and SDG&E is \$125 million, including a reduction in the after-tax loss of \$13 million recorded in the first quarter of 2015. The remaining regulatory asset for the expected recovery of SONGS costs, consistent with the Amended Settlement Agreement, is \$206 million (\$45 million current and \$161 million long-term) at June 30, 2016 and is recorded on the Condensed Consolidated Balance Sheets in Other Current Assets and Regulatory Assets Noncurrent, respectively, at Sempra Energy, and in Regulatory Assets Current and Other Regulatory Assets Noncurrent, respectively, at SDG&E. The amortization period prescribed for the regulatory asset is 10 years, which commenced in January 2015 following the CPUC's final decision approving the Amended Settlement Agreement in November 2014.

Settlement with Nuclear Electric Insurance Limited (NEIL)

NEIL insures domestic and international nuclear utilities for the costs associated with interruptions, damages, decontaminations and related nuclear risks. In October 2015, the SONGS co-owners (Edison, SDG&E and the City of Riverside) reached an agreement with NEIL to resolve all of SONGS' insurance claims arising out of the failures of the replacement steam generators for a total payment by NEIL of \$400 million, SDG&E's share of which is \$80 million. Pursuant to the terms of the SONGS OII Amended Settlement Agreement, after reimbursement of legal fees and a 5-percent allocation to shareholders, the net proceeds of \$75 million were allocated to ratepayers through ERRA. We discuss NEIL further in Note 11.

Nuclear Decommissioning and Funding

As a result of Edison's decision to permanently retire SONGS Units 2 and 3, Edison has begun the decommissioning phase of the plant. We discuss the process of decommissioning SONGS and oversight by the NRC in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

In accordance with state and federal requirements and regulations, SDG&E has assets held in trusts, referred to as the Nuclear Decommissioning Trusts (NDT), to fund decommissioning costs for SONGS Units 1, 2 and 3.

Decommissioning of Unit 1, removed from service in 1992, is largely complete. The remaining work will be done when Units 2 and 3 are decommissioned. At June 30, 2016, the fair value of SDG&E's NDT assets was \$1.1 billion. Except for the use of funds for the planning of decommissioning activities or NDT administrative costs, CPUC approval is required for SDG&E to access the NDT assets to fund SONGS decommissioning costs for Units 2 and 3. In April 2016, the CPUC adopted a decision approving a total decommissioning cost estimate for SONGS Units 2 and 3 of \$4.411 billion, of which SDG&E's share is \$899 million. The decision also approves an annual advice letter request process for SDG&E to request trust fund disbursements for decommissioning costs based on a forecast for 2016 and thereafter. Disbursements from the trust will then be made up to this annual forecast amount as decommissioning expenses are incurred. All disbursements will be subject to future refund until a reasonableness review of the actual decommissioning costs is conducted, which would be no less frequently than every three years. SDG&E has received authorization from the CPUC to access trust funds for SONGS decommissioning costs of up to \$218 million for 2013 through 2016 (forecasted). The total of \$218 million includes \$75 million that is expected to be withdrawn pending satisfactory clarification by the Internal Revenue Service (IRS) that certain spent fuel costs and other costs are eligible decommissioning costs, payable from qualified nuclear decommissioning trusts. We are uncertain as to when such clarification will be provided.

We discuss the NDT and matters related to its funding and the funding of decommissioning costs by the NDT further in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report. We discuss matters related to spent nuclear fuel in Note 11.

Nuclear Decommissioning Trusts

The amounts collected in rates for SONGS' decommissioning are invested in externally managed trust funds. Amounts held by the trusts are invested in accordance with CPUC regulations. These trusts are presented on the Sempra Energy and SDG&E Condensed 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 NDT. We provide additional fair value disclosures for the NDT in Note 8.

NUCLEAR DECOMMISSIONING TRUSTS

(Dollars in millions)

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
At June 30, 2016:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies(1)	\$99	\$5	\$	\$ 104
Municipal bonds(2)	150	13		163
Other securities(2)	189	9	(6)	192
Total debt securities	438	27	(6)	459
Equity securities	221	416	(5)	632
Cash and cash equivalents	12			12
Total	\$671	\$443	\$(11)	\$ 1,103
At December 31, 2015:				

Debt securities:			
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	\$89	\$	\$91
Municipal bonds	148	8	156
Other securities	194	1	(13)
Total debt securities	431	11	(13)
Equity securities	214	412	(7)
Cash and cash equivalents	15		15
Total	\$660	\$423	\$(20)

(1) Maturity dates are 2017-2065.

(2) Maturity dates are 2016-2115.

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

SALES OF SECURITIES

(Dollars in millions)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Proceeds from sales(1)	\$111	\$127	\$204	\$221
Gross realized	5	4	8	6

gains
 Gross
 realized (3) (11) (7)
 losses
 Excludes securities
 (1) that are held to
 maturity.

Net unrealized gains (losses) are included in Regulatory Liabilities Arising from Removal Obligations on Sempra Energy's and SDG&E's Condensed Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

We provide additional information about SONGS in Note 11.

NOTE 10. CALIFORNIA UTILITIES' REGULATORY MATTERS

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

JOINT MATTERS

CPUC General Rate Case (GRC)

The CPUC uses a general rate case proceeding to set sufficient rates to allow the California Utilities to recover their reasonable cost of operations and maintenance and to provide the opportunity to realize their authorized rates of return on their investment.

The California Utilities filed their 2016 General Rate Case (2016 GRC) applications in November 2014. In September 2015, the California Utilities filed settlement agreements with the CPUC to resolve all material matters related to the proceeding, except for the revenue requirement implications of certain income tax benefits associated with flow-through tax repair deductions, discussed below. The settlement agreements were with eight of eleven intervening parties.

In June 2016, the CPUC issued a final decision in the 2016 GRC. The final decision (2016 GRC FD) adopts substantially all of the terms of the settlement agreements entered into between SDG&E and SoCalGas and eight of the eleven intervening parties in the 2016 GRC. The 2016 GRC FD adopts two revenue requirement changes, the first of which, relating to the extension of bonus depreciation, is the only significant change to the settlement agreements. The second revenue requirement adjustment relates to income tax benefits associated with flow-through repair deductions (the settling parties did not reach agreement on this second matter). With these adjustments, the final decision adopts a 2016 revenue requirement of \$1.791 billion for SDG&E, which is \$20 million less than the \$1.811 billion proposed in the settlement agreements. For SoCalGas, the final decision's adjustments result in a 2016 revenue requirement of \$2.204 billion, which is \$15 million less than the \$2.219 billion proposed in the settlement agreements. The 2016 GRC FD also requires certain refunds to be paid to customers and establishes a two-way income tax expense memorandum account, each discussed below.

Consistent with the settlement agreements, the 2016 GRC FD adopts subsequent annual escalation of the adopted revenue requirements by 3.5 percent for years 2017 and 2018 and continuation of the Z-Factor mechanism for qualifying cost recovery. The Z-Factor mechanism allows the California Utilities to seek cost recovery of significant cost increases, under certain unforeseen circumstances, incurred between GRC filings, subject to a \$5 million deductible per event. Also, the 2016 GRC FD denies a separate agreement between the ORA and the California

Utilities requesting a four-year GRC period and instead adopts a three-year GRC period (through 2018). The California Utilities recorded revenues in the first quarter of 2016 based on levels authorized for 2015 under the 2012 GRC, because a final decision in the 2016 GRC was not issued by March 31, 2016. The 2016 GRC FD is effective retroactive to January 1, 2016, and the California Utilities recorded the retroactive impacts in the second quarter of 2016. For SoCalGas and SDG&E, these amounts include an incremental after-tax earnings impact of \$12 million and \$9 million, respectively, related to the first quarter of 2016. The adopted revenue requirements associated with the seven-month period through July 2016 will be recovered in rates over a 17-month period, beginning August 2016. At June 30, 2016, SoCalGas is reporting on its Condensed Balance Sheet a regulatory asset of \$60 million, with \$21 million as noncurrent, representing the retroactive revenue from the 2016 GRC FD from January 1 through June 30, 2016 to be recovered in rates through December 2017. At June 30, 2016, SDG&E is reporting on its Condensed Consolidated Balance Sheet a regulatory asset of \$23 million, with \$8 million as noncurrent, representing the retroactive revenue from the 2016 GRC FD from January 1 through June 30, 2016 to be recovered in rates through December 2017.

The 2016 GRC FD results in certain accounting impacts associated with the income tax repairs deduction matter. In general, the 2016 GRC FD considers that the income tax benefits obtained from income tax repairs deductions exceeded amounts forecasted by the California Utilities from 2011 to 2015, and that they were attributed to shareholders during that time. The 2016 GRC FD reallocates the economic benefit of this tax deduction forecasting difference to ratepayers. Accordingly, revenues corresponding to income tax repair deductions that exceeded forecasted amounts relating to 2015, which have been tracked in memorandum accounts, are ordered to be refunded to customers. The 2015 amounts total \$72 million for SoCalGas and \$37 million for SDG&E. Pursuant to this refund requirement, SoCalGas and SDG&E recorded regulatory liabilities for these amounts, resulting in after-tax charges to earnings of \$43 million and \$22 million, respectively, in the second quarter of 2016 (summarized below). In addition, the 2016 GRC FD reduced rate base by \$38 million at SoCalGas and \$55 million at SDG&E. The corresponding reductions in the 2016 revenue requirement will be \$5 million at SoCalGas and \$7 million at SDG&E (which reductions are included in the adopted 2016 revenue requirement amounts described above). The rate base reductions reallocate to ratepayers the economic benefits associated with tax repair deductions that were previously provided to the shareholders for the period of 2012-2014 for SoCalGas and 2011-2014 for SDG&E. The rate base reductions do not result in an impairment of any of our reported assets, but will impact our revenues and earnings prospectively. The 2016 GRC FD also requires us to notify the CPUC if the 2012-2015 repairs deductions estimated in this GRC are different from the actual repairs deductions for SDG&E and SoCalGas. SoCalGas and SDG&E recorded regulatory liabilities of \$11 million and \$15 million, respectively, related to 2012-2014, resulting in after-tax charges to earnings for these differences of \$6 million and \$9 million in the second quarter of 2016 for SoCalGas and SDG&E, respectively (summarized below). SDG&E and SoCalGas will record any adjustments necessary related to estimated 2015 amounts when the information to do so becomes available.

In July 2016, SDG&E, SoCalGas and the parties to the settlement agreements filed a joint motion indicating their agreement to accept the CPUC's adjustments to the original settlements with one additional change. The settlement parties agree that SDG&E and SoCalGas shall retain the right to seek further review and modification of the bonus depreciation adjustment made by the CPUC, so that SDG&E and/or SoCalGas can pursue relief in the form of full or partial restoration of the total revenue requirements reflected in the original settlement agreements. We expect CPUC action on the joint motion in the second half of 2016.

Following is a summary of immediate earnings impacts from the 2016 GRC FD recorded in the second quarter of 2016:

EARNINGS IMPACTS FROM
THE 2016 GRC FD
RECORDED IN THE SECOND
QUARTER OF 2016

(Dollars in millions)

	SoCalGas	SDG&E
Pretax		
After-tax		

earnings	earnings	earnings	earnings
(charge)	(charge)	(charge)	(charge)
Retroactive			
revenue			
requirement			
increase			
for			
the			
first	\$ 20	\$ 12	\$ 15
quarter			\$ 9
of			
2016			
Adjustments			
to			
revenue			
related			
to			
tax			
repairs			
deductions:			
Refund			
of			
2012-2014	(\$152)	(\$43)	(\$37)
memorandum			(\$22)
account			
True-up			
of			
2012-2014	(11)	(6)	(15)
estimates			(9)
to			
actuals			
Total	(\$87)	(\$49)	(\$52)
			(\$31)

Finally, the 2016 GRC FD requires the establishment of a two-way income tax expense memorandum account to track any revenue differences resulting from differences between the income tax expense forecasted in the GRC and the income tax expense incurred by the California Utilities from 2016 through 2018. The differences tracked are to specifically include tax expense differences relating to

§ net revenue changes;

§ mandatory tax law, tax accounting, tax procedural, or tax policy changes; and

§ elective tax law, tax accounting, tax procedural, or tax policy changes.

The account will remain open, and the balance in the account will be reviewed in subsequent GRC proceedings, until the CPUC decides to close the account. In July 2016, to address the implementation of the 2016 GRC FD, the California Utilities filed an advice letter to establish a two-way memorandum account to track revenue requirement differences resulting from the differences in the income tax expense forecasted in the GRC proceedings of SDG&E and SoCalGas and the income tax expense incurred by them during the GRC period. In the second quarter of 2016, SoCalGas and SDG&E each recorded a liability associated with tracking the differences in the income tax expense forecasted in the GRC proceedings and the income tax expense that SoCalGas and SDG&E incurred for the six-month period ended June 30, 2016, which resulted in after-tax charges to earnings of \$9 million (\$15 million pretax) for SoCalGas and a negligible amount for SDG&E.

Natural Gas Pipeline Operations Safety Assessments

In June 2014, the CPUC issued a final decision addressing SDG&E's and SoCalGas' Pipeline Safety Enhancement Plan (PSEP). Specifically, the decision determined the following for Phase 1 of the program:

§ approved the utilities' model for implementing PSEP;

§ approved a process, including a reasonableness review, to determine the amount that the utilities will be authorized to recover from ratepayers for the interim costs incurred through the date of the final decision to implement PSEP, which is recorded in regulatory accounts authorized by the CPUC;

§ approved balancing account treatment, subject to a reasonableness review, for incremental costs yet to be incurred to implement PSEP; and

§ established the criteria to determine the amounts that would not be eligible for cost recovery, including:

certain costs incurred or to be incurred searching for pipeline test records,

the cost of pressure testing pipelines installed after July 1, 1961 for which the company has not found sufficient records of testing, and

any undepreciated balances for pipelines installed after 1961 that were replaced due to insufficient documentation of pressure testing.

As a result of this decision, SoCalGas recorded an after-tax earnings charge of \$5 million in 2014 for costs incurred in prior periods that were no longer subject to recovery. After taking the amounts disallowed for recovery into consideration, as of June 30, 2016, SDG&E and SoCalGas have recorded PSEP costs of \$15 million and \$195 million, respectively, in the CPUC-authorized regulatory account.

In October 2014, SDG&E and SoCalGas filed a petition with the CPUC requesting authority to begin to recover PSEP costs from customers in the year in which the costs are incurred, subject to refund pending the results of a reasonableness review by the CPUC, instead of recovery of such costs in a subsequent year.

In July 2016, the CPUC issued a proposed decision addressing a number of outstanding requests and authorizing SoCalGas and SDG&E to recover, subject to refund pending reasonableness reviews, the revenue requirements associated with 50 percent of their incurred PSEP Phase 1 costs recorded to regulatory accounts; file two reasonableness review applications for Phase 1 projects completed through 2017; file a Phase 2 revenue requirement forecast application for costs to be incurred in 2017 and 2018; and include in their 2019 GRC applications, and any future GRCs, all other PSEP costs not the subject of prior applications. We expect the CPUC to issue a final decision in the proceeding in the third quarter of 2016.

In December 2014, SDG&E and SoCalGas filed an application with the CPUC for recovery of \$0.1 million and \$46 million, respectively, in costs recorded in the regulatory account through June 11, 2014. In June 2015, SDG&E and SoCalGas agreed to remove certain projects from the filing and defer their review to future proceedings when the projects are fully completed and, as a result, are now requesting recovery of \$0.1 million and \$26.8 million, respectively. The ORA, TURN and the Southern California Generation Coalition (SCGC) have recommended disallowances related to completed projects, as well as facilities build-out costs, de-scoped projects, and project management and consulting costs. We expect a decision on this application in the second half of 2016.

In July 2014, the ORA and TURN filed a joint application for rehearing of the CPUC's June 2014 final decision. In March 2015, the CPUC issued a decision denying the ORA's and TURN's second request for rehearing, but keeping the record open to admit additional evidence on the limited issue of pressure testing or replacing pipelines installed between January 1, 1956 and July 1, 1961. The ORA and TURN allege that the CPUC made a legal error in directing that ratepayers, not shareholders, be responsible for the costs associated with testing or replacing transmission pipelines that were installed between January 1, 1956 and July 1, 1961 for which the California Utilities do not have a record of a pressure test. In December 2015, the CPUC issued a final decision finding that ratepayers should not bear the costs associated with pressure testing subject pipelines, or, if replaced, ratepayers should bear neither the average cost of pressure testing nor the undepreciated balance of abandoned pipelines. In January 2016, SoCalGas and SDG&E jointly filed a request with the CPUC seeking rehearing of its December 2015 decision. In May 2016, the CPUC issued a decision denying the request for rehearing. Through June 30, 2016, the after-tax disallowed costs for SoCalGas and SDG&E are \$3.6 million and \$0.5 million, respectively.

SoCalGas and SDG&E expect to file an application with the CPUC in the third quarter of 2016 for reasonableness review and rate recovery of certain pipeline safety projects recorded in their authorized regulatory accounts. SoCalGas and SDG&E expect a decision from the CPUC in 2017.

SDG&E MATTERS

SONGS

We discuss regulatory and other matters related to SONGS in Note 9.

Wildfire Claims Cost Recovery

In September 2015, SDG&E filed an application with the CPUC requesting rate recovery of an estimated \$379 million in costs related to the October 2007 wildfires that have been recorded to the Wildfire Expense Memorandum Account (WEMA). These costs represent a portion of the estimated total of \$2.4 billion in costs and legal fees that SDG&E has incurred to resolve third-party damage claims arising from the October 2007 wildfires. The requested amount of \$379 million is the net estimated cost incurred by SDG&E after deductions for insurance reimbursement (\$1.1 billion), third party settlement recoveries (\$824 million) and allocations to Federal Energy Regulatory Commission (FERC)-jurisdictional rates (\$80 million), and reflects a voluntary 10 percent shareholder contribution applied to the net WEMA balance (\$42 million). SDG&E requested a CPUC decision by the end of 2016 and is proposing to recover the costs in rates over a six- to ten-year period. In April 2016, a ruling was issued establishing the scope and schedule for the proceeding, which will be managed in two phases. Phase 1 will address SDG&E's operational and management prudence surrounding the 2007 wildfires. Phase 2 will address whether SDG&E's actions and decision-making in connection with settling legal claims in relation to the wildfires were reasonable. Evidentiary hearings in Phase 1 are scheduled to be held in January 2017, with a final decision scheduled to be issued in the second half of 2017. The procedural schedule for Phase 2 will be determined after Phase 1 is concluded.

In September 2015, the presiding judge assigned by the FERC to SDG&E's annual Electric Transmission Formula Rate filing (TO4 Formula Cycle 2) issued an initial decision and an order on summary judgment that authorized SDG&E to recover all of the costs incurred and allocated to SDG&E's FERC-regulated operations, including \$23.1 million of costs associated with the 2007 wildfires. In October 2015, the CPUC filed a request for rehearing of the FERC's September 2015 order, which requested abeyance of SDG&E's request to recover 2007 wildfire damage expenses. On April 21, 2016, the FERC affirmed its findings in the September 2015 order and denied the CPUC's request for rehearing. The FERC decision finalizes SDG&E's base transmission revenue requirement and the recovery of \$23.1 million of wildfire damage expenses allocated to SDG&E's FERC-regulated operations.

We provide additional information about wildfire litigation costs and their recovery in Note 11.

SOCALGAS MATTERS

Aliso Canyon Natural Gas Storage Facility

We discuss various regulatory matters regarding the Aliso Canyon natural gas storage facility and leak in Note 11.

Natural Gas Procurement

In June 2016, SoCalGas filed an application for a gas cost incentive mechanism award of \$5 million for natural gas procured for its core customers during the 12-month period ended March 31, 2016. We expect a CPUC decision in the first half of 2017.

CALIFORNIA UTILITIES — MAJOR PROJECTS

We discuss the California Utilities' major projects in detail in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report, and provide updates to those discussions and details in the tables below.

MAJOR
PROJECTS
– UPDATES

Joint Utilities Projects
Southern Gas System
Reliability Project
(North-South
Pipeline)

In July 2016, the CPUC issued a final decision which denies the California Utilities' request for a permit to construct.

§ In June 2016, SoCalGas recorded an after-tax impairment charge of \$13 million for the development costs it had invested in the project. The pretax charge of \$21 million is included

§ in Operation and Maintenance on Sempra Energy's and SoCalGas' Condensed Consolidated Statements of Operations. We expect to make a filing to the CPUC seeking recovery of all or a portion of these costs.

Pipeline Safety & Reliability Project

§ SDG&E and SoCalGas filed an

amended application with the CPUC in March 2016 providing detailed analysis and testimony supporting the proposed project. The revised request also presents additional information on the costs and benefits of project alternatives, safety evaluation and compliance analysis, and statutory and procedural requirements. SDG&E and SoCalGas seek approval to construct the proposed project, estimated at a cost of \$633 million, and authority to recover the associated revenue requirement in rates.

SDG&E Projects
Cleveland National
Forest (CNF)

Transmission Projects

§ In March 2016, the U.S. Forest Service issued a final decision authorizing issuance of the CNF Master Special Use Permit renewing SDG&E's land rights and authorizing the

construction, operation and maintenance of facilities located on national forest lands for the next 50 years, as well as approving the majority of the fire-hardening activities proposed by SDG&E.

In May 2016, the CPUC issued a final decision granting SDG&E a permit to

construct. The project will be installed at an estimated cost of \$680 million: \$470 million for the

various transmission-level facilities and \$210 million for associated distribution-level facilities,

§ including distribution circuits and additional undergrounding required by the final environmental impact statement.

In July 2016, the Cleveland National Forest Foundation and the Protect Our Communities Foundation filed a joint application for rehearing of the final decision.

Sycamore-Peñasquitos Transmission Project

March 2016 final environmental impact report (EIR)

recommended an alternative that undergirds

§ more of the project than originally proposed, and is viewed as environmentally superior. The CPUC may consider this alternative.

The recommended alternative in the EIR has an estimated cost of \$250 million to \$300 million, compared to the original project cost estimate of \$120 million to \$150 million, and would also delay the project schedule by approximately 10 months.

§ CPUC decision expected in the second half of 2016.

South Orange County Reliability Enhancement

§ CPUC issued its final EIR for the project in April 2016. The EIR concluded that an alternative project is considered environmentally superior to SDG&E's proposal. The final EIR states that the

CPUC is not required to adopt the environmentally superior alternative if there are overriding considerations in favor of another alternative. The CPUC will consider the findings in determining whether to approve SDG&E's proposed project or an alternative to it.

§ Final CPUC decision expected in the second half of 2016.

Energy Storage Projects

§ SDG&E filed an advice letter with the CPUC in July 2016 seeking approval to own and operate two energy storage projects totaling 37.5 MW. The purpose of the two projects is to enhance electric reliability in the San Diego service territory.

§ We expect a CPUC resolution later in 2016.

NOTE 11. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

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

At June 30, 2016, Sempra Energy's accrued liabilities for legal proceedings, including associated legal fees and costs of litigation, on a consolidated basis, were \$44 million. At June 30, 2016, accrued liabilities for legal proceedings were \$21 million for SDG&E and \$21 million for SoCalGas. Amounts for Sempra Energy and SoCalGas include \$21 million for matters related to the Aliso Canyon natural gas leak, which we discuss below.

SDG&E

2007 Wildfire Litigation

In October 2007, San Diego County experienced several catastrophic wildfires. Reports issued by the California Department of Forestry and Fire Protection (Cal Fire) concluded that two of these fires (the Witch and Rice fires) were SDG&E "power line caused" and that a third fire (the Guejito fire) occurred when a wire securing a Cox Communications' (Cox) fiber optic cable came into contact with an SDG&E power line "causing an arc and starting the fire." A September 2008 staff report issued by the CPUC's Consumer Protection and Safety Division, now known as the Safety and Enforcement 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.

Numerous parties 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. They asserted various bases for recovery, including inverse condemnation based upon a California Court of Appeal decision finding that another California investor-owned utility was subject to strict liability, without regard to foreseeability or negligence, for property damages resulting from a wildfire ignited by power lines. SDG&E has resolved almost all of these lawsuits. One case remains subject to a damages-only trial, where the value of any compensatory damages resulting from the fires will be determined. Two appeals are pending after judgment in the trial court. SDG&E does not expect additional plaintiffs to file lawsuits given the applicable statutes of limitation, but could receive additional settlement demands and damage estimates from the remaining plaintiff until the case is resolved. SDG&E establishes reserves for the wildfire litigation as information becomes available and amounts are estimable.

SDG&E has concluded that it is probable that it will be permitted to recover in rates a substantial portion of the costs incurred to resolve wildfire claims in excess of its liability insurance coverage and the amounts recovered from third parties. Accordingly, at June 30, 2016, Sempra Energy and SDG&E have recorded assets of \$355 million in Other Regulatory Assets (long-term) on their Condensed Consolidated Balance Sheets, including \$353 million related to CPUC-regulated operations, which represents the amount substantially equal to the aggregate amount it has paid and reserved for payment for the resolution of wildfire claims and related costs in excess of its liability insurance coverage and amounts recovered from third parties. On September 25, 2015, SDG&E filed an application with the CPUC seeking authority to recover these costs, as we discuss in Note 10. Should SDG&E conclude that recovery in rates is no longer probable, SDG&E will record a charge against earnings at the time such conclusion is reached. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or

was less than currently estimated at June 30, 2016, the resulting after-tax charge against earnings would have been up to approximately \$210 million. A failure to obtain substantial or full recovery of these costs from customers, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's results of operations and cash flows.

We provide additional information about excess wildfire claims cost recovery and related CPUC actions in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report and discuss how we assess the probability of recovery of our regulatory assets in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Smart Meters Patent Infringement Lawsuit

In October 2011, SDG&E was sued by a Texas design and manufacturing company in Federal District Court, Southern District of California, and later transferred to the Federal District Court, Western District of Oklahoma as part of Multi-District Litigation (MDL) proceedings, alleging that SDG&E's recently installed smart meters infringed certain patents. The meters were purchased from a third party vendor that has agreed to defend and indemnify SDG&E. The lawsuit sought injunctive relief and recovery of unspecified amounts of damages. The third party vendor has settled the lawsuit without cost to SDG&E, and a dismissal was entered in federal court on July 20, 2016.

Lawsuit Against Mitsubishi Heavy Industries, Ltd.

On July 18, 2013, SDG&E filed a lawsuit in the Superior Court of California in the County of San Diego against Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). The lawsuit seeks to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators MHI provided to the SONGS nuclear power plant. The lawsuit asserts a number of causes of action, including fraud, based on the representations MHI made about its qualifications and ability to design generators free from defects of the kind that resulted in the permanent shutdown of the plant and further seeks to set aside the contractual limitation of damages that MHI has asserted. On July 24, 2013, MHI removed the lawsuit to the United States District Court for the Southern District of California and on August 8, 2013, MHI moved to stay the proceeding pending resolution of the dispute resolution process involving MHI and Edison arising from their contract for the purchase and sale of the steam generators. On October 16, 2013, Edison initiated an arbitration proceeding against MHI seeking damages stemming from the failure of the replacement steam generators. In late December 2013, MHI answered and filed a counterclaim against Edison. On March 14, 2014, MHI's motion to stay the United States District Court proceeding was granted with instructions that require the parties to allow SDG&E to participate in the ongoing Edison/MHI arbitration. As a result, SDG&E participated in the arbitration as a claimant and respondent. The arbitration hearing concluded at the end of April 2016, and a decision could come as early as this year.

Rim Rock Wind Farm

In 2011, the CPUC and FERC approved SDG&E's estimated \$285 million tax equity investment in a wind farm project and its purchase of renewable energy credits from that project. SDG&E's contractual obligations to both invest in the Rim Rock wind farm and to purchase renewable energy credits from the wind farm under the power purchase agreement were subject to the satisfaction of certain conditions which, if not achieved, would allow SDG&E to terminate the power purchase agreement and not make the investment.

In December 2013, SDG&E and the project developer began litigating claims against each other regarding whether the project developer had timely satisfied all contractual conditions necessary to trigger SDG&E's obligations to invest in the project and purchase renewable energy credits. On February 11, 2016, SDG&E, the project developer and several of the project developer's parent and affiliated entities entered into a conditional settlement agreement, which was approved by the CPUC in July 2016 and will become final and non-appealable 30 days after the CPUC approval, provided that no party requests rehearing. Under the settlement agreement, among other things, the parties agreed to terminate the tax equity investment arrangement, continue the power purchase agreement for the wind farm generation and release all claims against each other, while generally continuing the other elements of the 2011 approved decision. The settlement agreement will result in a \$39 million credit to ratepayers.

SoCalGas

Aliso Canyon Natural Gas Storage Facility Gas Leak

On October 23, 2015, SoCalGas discovered a leak at one of its injection and withdrawal wells, SS25, at its Aliso Canyon natural gas storage facility, located in the northern part of the San Fernando Valley in Los Angeles County.

The Aliso Canyon facility has been operated by SoCalGas since 1972. SS25 is more than one mile away from and 1,200 feet above the closest homes. It is one of more than 100 injection and withdrawal wells at the storage facility. Stopping the Leak, and Local Community Mitigation Efforts. SoCalGas worked closely with several of the world's leading experts to stop the leak, including planning and obtaining all necessary approvals for drilling relief wells. On February 18, 2016, the California Department of Conservation's Division of Oil, Gas, and Geothermal Resources (DOGGR) confirmed that the well was permanently sealed.

On December 24, 2015, by stipulation and court order, SoCalGas agreed to implement a formal plan for assisting residents in the nearby community to temporarily relocate, as well as to pay for additional overtime and costs associated with extra Los Angeles Police Department security patrols, among other things. SoCalGas provided temporary relocation support to residents in the nearby community who requested it before the well was permanently sealed. In addition, SoCalGas provided air filtration and purification systems to those residents in the nearby community requesting them.

As a result of receiving the confirmation from DOGGR that SS25 was permanently sealed, SoCalGas started winding down its temporary relocation support in accordance with the terms of the formal relocation plan. Subject to certain exceptions, the period for temporary relocation support to residents who temporarily relocated to short-term housing, such as hotels, was scheduled to end on February 25, 2016. This deadline was challenged by the Los Angeles County Department of Public Health (DPH), which contended that indoor testing was required to determine whether it was safe for residents to return home.

In mid-March 2016, a third party engaged by SoCalGas conducted screening of indoor air for methane and mercaptans (odorants added to natural gas) in 71 houses in the Porter Ranch community near the Aliso Canyon storage facility. No mercaptans were detected in this screening, and concentrations of methane were well below levels of concern as established by the California Environmental Protection Agency's Department of Toxic Substances Control. On March 24, 2016, the DPH released its indoor sampling work plan to test approximately 100 houses for a broad range of chemicals, including volatile organic compounds, semi-volatile organic compounds, metals, and sulfur compounds in the air and on surfaces. These substances are commonly found in households at varying levels.

On April 27, 2016, the California Superior Court issued an order extending the relocation support term pending the completion of the DPH's indoor testing. The DPH took samples from more than 100 homes and certain schools, as well as 11 "control" homes outside the Porter Ranch Community, and tested for over 250 chemical substances, and on May 13, 2016 issued its report of the results, which concluded that the testing did not detect chemicals at levels that presented an elevated health risk, and that the occurrence of air contaminants was consistent with background levels for indoor settings. The DPH's report stated that certain metals had been detected in surface dust in a small number of homes tested. Although the levels of any such metals were found to be significantly below levels established as safe by the U.S. Environmental Protection Agency (EPA) and even though such metals were also found in homes outside the Porter Ranch Community that were tested as a control group, the DPH nevertheless asserted that the detection of such substances required the homes of relocated residents to be cleaned before the relocation program could end. In response, the Superior Court issued an order on May 20, 2016, as supplemented by the Superior Court on May 25, 2016, ruling that: (1) currently relocated residents be given the choice to request residence cleaning, to be performed according to the DPH's proposed protocol and at SoCalGas' expense, and (2) the relocation program for currently relocated residents would terminate. In accordance with the May 20 and May 25 orders, SoCalGas finished cleaning all homes covered by this order on July 6, 2016, or approximately 1,500 homes. As of July 24, 2016, the relocation program has ended.

Apart from the Superior Court order, on May 13, 2016, the DPH also issued a directive that SoCalGas professionally clean (in accordance with the proposed protocol prepared by the DPH) the homes of all residents located within the Porter Ranch Neighborhood Council boundary, or who have participated in the relocation program, or who are located within a five mile radius of the Aliso Canyon natural gas storage facility and have experienced symptoms from the natural gas leak (the Directive). SoCalGas does not believe that the DPH has the authority to issue the Directive and has filed a petition for writ of mandate to set aside the Directive.

The total costs incurred to remediate and stop the leak and to mitigate local community impacts are significant and may increase, and to the extent not covered by insurance (including any costs in excess of applicable policy limits), or if there were to be significant delays in receiving insurance recoveries, such costs could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Cost Estimates and Accounting Impact. At June 30, 2016, SoCalGas recorded estimated costs of \$717 million related to the leak. Of this amount, approximately 70 percent is for the temporary relocation program (including cleaning costs and certain labor costs) and approximately 15 percent is for attempts to control the well, stop the leak, stop or reduce the emissions, and the estimated cost of the root cause analysis being conducted to determine the cause of the leak. The remaining portion of the \$717 million includes estimated legal costs necessary to defend litigation, the value of lost gas, the costs to mitigate the actual natural gas released, and other costs. As the value of lost gas reflects the current replacement cost, the value may fluctuate until such time as replacement gas is purchased and injected into storage. SoCalGas made a commitment in December 2015 to mitigate the actual natural gas released and has been working on a plan to accomplish the mitigation. The \$717 million represents management's best estimate of these costs related to the leak. Of these costs, a substantial portion has been paid and \$117 million is recorded as Reserve for Aliso Canyon Costs at June 30, 2016 on SoCalGas' and Sempra Energy's Condensed Consolidated Balance Sheets for amounts expected to be paid after June 30, 2016.

At June 30, 2016, we recorded the expected recovery of the costs described in the immediately preceding paragraph related to the leak of \$679 million as Insurance Receivable for Aliso Canyon Costs on SoCalGas' and Sempra Energy's Condensed Consolidated Balance Sheets. This amount is net of insurance retentions and \$34 million of insurance proceeds we received in the second quarter of 2016 related to control of well expenses. If we were to conclude that this receivable or a portion of it was no longer probable of recovery from insurers, some or all of this receivable would be charged against earnings, which could have a material adverse effect on Sempra Energy's and SoCalGas' financial condition and results of operations.

The above amounts do not include any damage awards, restitution, or any civil or criminal fines, costs or other penalties that may be imposed, as it is not possible to predict the outcome of any criminal or civil proceeding or any administrative action in which such damage awards, restitution or civil or criminal fines, costs or other penalties could be imposed, and any such amounts, if awarded or imposed, cannot be reasonably estimated at this time. In addition, the above amounts do not include the cost to clean additional homes as directed by the DPH and other potential costs that we currently do not anticipate incurring or that we cannot reasonably estimate.

On March 17, 2016, the CPUC issued a decision directing SoCalGas to establish a memorandum account to prospectively track its authorized revenue requirement and all revenues that it receives for its normal, business-as-usual costs to own and operate the Aliso Canyon gas storage field. The CPUC will determine at a later time whether, and to what extent, the tracked revenues may be refunded to ratepayers. Pursuant to the CPUC's decision, on March 24, 2016, SoCalGas filed an advice letter requesting to establish a memorandum account to track all business-as-usual costs to own and operate the Aliso Canyon storage field, which has been protested by TURN and SCGC. On April 22, 2016, the CPUC's Energy Division issued a suspension notice for SoCalGas' advice letter citing the need for additional time for staff review.

Insurance. We have at least four kinds of insurance policies that provide in excess of \$1 billion in insurance coverage. We cannot predict all of the potential categories of costs or the total amount of costs that we may incur as a result of the leak. In reviewing each of our policies, and subject to various policy limits, exclusions and conditions, based upon what we know as of the filing date of this report, we believe that our insurance policies collectively should cover the following categories of costs: the costs incurred for temporary relocation (including cleaning costs and certain labor costs), costs to address the leak and stop or reduce emissions, the root cause analysis being conducted to determine the cause of the leak, the value of lost natural gas and estimated costs to mitigate the actual natural gas released, the costs associated with litigation and claims by nearby residents and businesses, the cost to clean additional homes as directed by the DPH, and, in some circumstances depending on their nature and manner of assessment, fines and penalties. We have been communicating with our insurance carriers and, as discussed above, we recently received an insurance payment for control of well costs. We intend to pursue the full extent of our insurance coverage for the costs we have incurred or may incur. There can be no assurance that we will be successful in obtaining insurance coverage for these costs under the applicable policies, and to the extent we are not successful, it could result in a material charge against the earnings of SoCalGas and Sempra Energy.

Our estimate at June 30, 2016 of \$717 million of certain costs in connection with the Aliso Canyon storage facility leak may rise significantly as more information becomes available, and to the extent not covered by insurance (including any costs in excess of applicable policy limits), or if there were to be significant delays in receiving insurance recoveries, such costs could have a material adverse effect on Sempra Energy's and SoCalGas' cash flows,

financial condition and results of operations. In addition, any costs not included in the \$717 million estimate could be material, and to the extent not covered by insurance (including any costs in excess of applicable policy limits), could have a material adverse effect on Sempra Energy's and SoCalGas' cash flows, financial condition and results of operations.

Governmental Investigations and Civil and Criminal Litigation. Various governmental agencies, including the DOGGR, DPH, South Coast Air Quality Management District (SCAQMD), California Air Resources Board (CARB), Los Angeles Regional Water Quality Control Board (RWQCB), California Division of Occupational Safety and Health (DOSH), CPUC, Pipeline and Hazardous Materials Safety Administration (PHMSA), EPA, Los Angeles District Attorney's Office and California Attorney General's Office, are investigating this incident. On January 25, 2016, the DOGGR and CPUC selected Blade Energy Partners to conduct an independent analysis under their supervision and to be funded by SoCalGas to investigate the technical root cause of the Aliso Canyon gas leak. We expect the root cause analysis to be completed in late 2016 or early 2017, but the timing is dependent on the DOGGR and the CPUC.

As of July 28, 2016, 181 lawsuits have been filed (177 in Los Angeles County Superior Court, 2 in San Diego County Superior Court, and 2 in the United States District Court for the Southern District of California) against SoCalGas, some of which have also named Sempra Energy, and, in derivative and securities law claims on behalf of Sempra Energy and/or SoCalGas, against certain officers and directors of Sempra Energy and/or SoCalGas. These various lawsuits assert causes of action for negligence, negligence per se, strict liability, property damage, fraud, public and private nuisance (continuing and permanent), trespass, breach of fiduciary duties, inverse condemnation, fraudulent concealment, loss of consortium, and violation of federal securities laws, among other things, and additional litigation may be filed against us in the future related to this incident. Many of these complaints seek class action status, compensatory and punitive damages, injunctive relief, costs of future medical monitoring and attorneys' fees. Pursuant to the parties' agreement, the court ordered that the individual and business entity plaintiffs would proceed by filing two consolidated master complaints, one for the individual tort cases, and a second for the class action cases. The Los Angeles City Attorney and Los Angeles County Counsel have also filed a complaint on behalf of the people of the State of California against SoCalGas for public nuisance and violation of the California Unfair Competition Law. The California Attorney General, acting in her independent capacity and on behalf of the people of the State of California and the CARB, joined this lawsuit. The complaint, as amended includes allegations of violations of California Health and Safety Code sections 41700, prohibiting discharge of air contaminants that cause annoyance to the public, and 25510, requiring reporting of the release of hazardous material, as well as California Government Code section 12607 for equitable relief for the protection of natural resources. The complaint seeks an order for injunctive relief, to abate the public nuisance, and to impose civil penalties. The SCAQMD also filed a complaint against SoCalGas seeking civil penalties for alleged violations of several nuisance-related statutory provisions arising from the leak and delays in stopping the leak. That suit seeks up to \$250,000 in civil penalties for each day the violations occurred. On July 13, 2016, the SCAQMD amended its complaint to seek a declaration that SoCalGas is required to pay the costs of a longitudinal study of the health of persons exposed to the gas leak.

All of these cases, other than the derivative and securities law claims, are coordinated before a single court in the Los Angeles County Superior Court for pretrial management. As ordered by the court in the coordination proceeding, on July 25, 2016, the individuals and business entities asserting tort claims filed a Consolidated Case Complaint for Individual Actions through which their separate lawsuits will be managed for pretrial purposes. The consolidated complaint asserts causes of action for negligence, negligence per se, private and public nuisance (continuing and permanent), trespass, inverse condemnation, strict liability, negligent and intentional infliction of emotional distress, fraudulent concealment and loss of consortium against SoCalGas, with certain causes also naming Sempra Energy. The consolidated complaint seeks compensatory and punitive damages for personal injuries, property damage and diminution in property value, a temporary injunction, costs of future medical monitoring, and attorneys' fees.

On February 2, 2016, the Los Angeles District Attorney's Office filed a misdemeanor criminal complaint against SoCalGas seeking penalties and other remedies for alleged failure to provide timely notice of the leak pursuant to California Health and Safety Code section 25510(a), Los Angeles County Code section 12.56.030, and Title 19 California Code of Regulations section 2703(a), and for violating California Health and Safety Code section 41700 prohibiting discharge of air contaminants that cause annoyance to the public. On February 16, 2016, SoCalGas pled not guilty to the complaint. No trial date has been set.

On July 25, 2016, the County of Los Angeles, on behalf of itself and the people of the State of California, filed a complaint against SoCalGas in the Los Angeles County Superior Court for public nuisance, unfair competition, breach of franchise agreement, breach of lease, and damages. This suit alleges that the four natural gas storage fields operated or formerly operated by SoCalGas in Los Angeles County require safety upgrades, including the installation of sub-surface safety shut-off valves on every well. It additionally alleges that SoCalGas failed to comply with the Directive. It seeks preliminary and permanent injunctive relief, civil penalties, and damages for the County's costs to respond to the leak, as well as punitive damages and attorneys' fees.

The costs of defending against these civil and criminal lawsuits and cooperating with these investigations, and any damages, restitution, and civil and criminal fines, costs and other penalties, if awarded or imposed, could be significant and to the extent not covered by insurance (including any costs in excess of applicable policy limits), or if there were to be significant delays in receiving insurance recoveries, could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Governmental Orders, Additional Regulation and Reliability. On January 6, 2016, the Governor of the State of California issued the Governor's Order proclaiming a state of emergency to exist in Los Angeles County due to the natural gas leak at the Aliso Canyon facility. The Governor's Order directs the following:

Protecting Public Health and Safety: State agencies will: continue the prohibition against SoCalGas injecting any gas into the Aliso Canyon storage facility until a comprehensive review, utilizing independent experts, of the safety of the storage wells and the air quality of the surrounding community is completed; expand real-time monitoring of emissions in the surrounding community; convene an independent panel of scientific and medical experts to review public health concerns stemming from the natural gas leak and evaluate whether additional measures are needed to protect public health; and take all actions necessary to ensure the continued reliability of natural gas and electricity supplies in the coming months during the moratorium on gas injections into the Aliso Canyon storage facility.

Ensuring Accountability: The CPUC will ensure that SoCalGas covers costs related to the natural gas leak and its response, while protecting ratepayers; and CARB will develop a program to fully mitigate the leak's emissions of methane by March 31, 2016, with such program to be funded by SoCalGas.

Strengthening Oversight: The DOGGR will promulgate emergency regulations for gas storage facility operators throughout the state, requiring: at least daily inspection of gas storage well heads using gas leak detection technology such as infrared imaging; ongoing verification of the mechanical integrity of all gas storage wells; ongoing measurement of annular gas pressure or annular gas flow within wells; regular testing of all safety valves used in wells; minimum and maximum pressure limits for each gas storage facility in the state; and a comprehensive risk management plan for each facility that evaluates and prepares for risks, including corrosion potential of pipes and equipment. Additionally, the DOGGR, CPUC, CARB and California Energy Commission (CEC) will submit to the Governor's Office a report that assesses the long-term viability of natural gas storage facilities in California.

SoCalGas made a commitment in December 2015 to mitigate the actual natural gas released from the leak and has been working on a plan to accomplish the mitigation. On March 31, 2016, pursuant to the Governor's Order, the CARB issued its Aliso Canyon Methane Leak Climate Impacts Mitigation Program, which sets forth its recommended approach to achieve full mitigation of the emissions from the Aliso Canyon natural gas leak. The CARB program preliminarily assumes that the leak released approximately 100,000 metric tons of methane. It states that full mitigation requires that the program generate reductions in short-lived climate pollutants and other greenhouse gases at least equivalent to that amount and that the appropriate global warming potential to be used in deriving the amount of reductions required is a 20-year term rather than the 100-year term the CARB and other state and federal agencies use in regulating emissions, resulting in a target of approximately 8,000,000 metric tons of carbon dioxide equivalent. CARB's program also requires all of the mitigation to occur in California over the next five to ten years without the use of allowances or offsets. We have not agreed to this proposed formulation and continue to work with CARB on the mitigation plan.

On January 23, 2016, the Hearing Board of the SCAQMD ordered SoCalGas to, among other things: stop all injections of natural gas except as directed by the CPUC, withdraw the maximum amount of natural gas feasible in a contained and safe manner, subject to orders of the CPUC, and permanently seal the well once the leak has ceased; continuously monitor the well site with infrared cameras until 30 days after the leak has ceased; provide the public with daily air monitoring data collected by SoCalGas; provide the SCAQMD with certain natural gas injection, withdrawal and emissions data from the Aliso Canyon facility; prepare and submit to the SCAQMD for its approval

an enhanced leak detection and reporting well inspection program for the Aliso Canyon facility; provide the SCAQMD with funding to develop a continuous air monitoring plan for the Aliso Canyon facility and the nearby schools and community; prepare and submit to the SCAQMD for its approval an air quality notification plan to provide notice to SCAQMD, other public agencies and the nearby community in the event of a future reportable release; and provide the SCAQMD with funding to conduct an independent health study on the potential impacts of exposure on the constituents of the natural gas released from the facility, as well as any odor suppressants used to mitigate odors from the leaking well.

On April 1, 2016, the Secretary of the U.S. Department of Energy (DOE) and PHMSA jointly announced the formation of an Interagency Task Force on Natural Gas Storage Safety in response to the leak at Aliso Canyon to assess and make recommendations on best practices, response plans and safe operation of gas storage facilities. On June 22, 2016, President Obama signed the "Protecting our Infrastructure of Pipelines and Enhancing Safety Act of 2016" or the "PIPES Act of 2016." Among other things, the PIPES Act: (1) requires PHMSA to issue, within two years of passage, "minimum safety standards for underground natural gas storage facilities;" (2) imposes a "user fee" on underground storage facilities as needed to implement the safety standards; (3) grants PHMSA authority to issue emergency orders and impose emergency restrictions, prohibitions and safety measures on owners and operators of gas or hazardous liquid pipeline facilities without prior notice or an opportunity for hearing, if the Secretary of Energy determines that an unsafe condition or practice, or a combination of unsafe conditions and practices, constitutes or is causing an imminent hazard; (4) directs the Secretary of Energy to establish an Aliso Canyon Task Force comprised of representatives from the Department of Transportation (DOT), Department of Health and Human Services, EPA, Department of the Interior, Department of Commerce, FERC and representatives of state and local governments, as deemed appropriate by the Secretary and the Administrator. The Act expressly allows states to adopt more stringent standards for intrastate underground natural gas storage facilities if such standards are compatible with the minimum standards prescribed under the PIPES Act.

Within 180 days of enactment of the PIPES Act, the Task force is required to issue a report that includes: (1) an analysis and conclusion of the cause and contributing factors of the Aliso Canyon natural gas leak; (2) an analysis of measures taken to stop the natural gas leak, with an immediate focus on other, more effective measures that could be taken; (3) an assessment of the impact of the natural gas leak on health, safety, and the environment, wholesale and retail electricity prices and the reliability of the bulk-power system; (4) an analysis of how Federal, State, and local agencies responded to the natural gas leak; (5) recommendations on how to improve the response to a future leak and coordination between appropriate Federal, State, and local agencies in response to future natural gas leaks; (6) an analysis of the potential for a similar natural gas leak to occur at other underground natural gas storage facilities in the United States; (7) recommendations on how to prevent any future natural gas leaks; (8) recommendations regarding Aliso Canyon and other underground natural gas storage facilities located in close proximity to residential populations; (9) any recommendations on information that is not currently collected but that would be in the public interest to collect and distribute to agencies and institutions for the continued study and monitoring of natural gas storage infrastructure in the United States; and (10) any other recommendations, as appropriate.

PHMSA, DOGGR, SCAQMD, EPA and CARB have each commenced separate rulemaking proceedings to adopt further regulations covering natural gas storage facilities and injection wells. Regulations issued by DOGGR following the Governor's Order, as well as California Senate Bill 380, which was enacted on May 10, 2016, are discussed below. Additional hearings in the State Legislature as well as with various other federal and state regulatory agencies have been or are expected to be scheduled, additional legislation has been proposed in the state legislature, and additional laws, orders, rules and regulations may be adopted. The Los Angeles County Board of Supervisors has formed a task force to review and potentially implement new, more stringent land use (zoning) requirements and associated regulations and enforcement protocols for oil and gas activities, including natural gas storage field operations. Such new requirements could materially affect new or modified uses of the Aliso Canyon and other natural gas storage fields located in the County, including review under the California Environmental Quality Act and mitigation of environmental impacts associated with new and modified uses of the fields.

Higher operating costs and additional capital expenditures incurred by SoCalGas as a result of new laws, orders, rules and regulations arising out of this incident could be significant and may not be recoverable in customer rates, and SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations may be materially adversely affected by any such new regulations.

On June 10, 2016, DOSH issued four citations to SoCalGas alleging violations of various regulations, including that SoCalGas failed to ensure that testing and inspection of well casing and tubing at the Aliso Canyon storage facility complied with testing and inspection requirements, with total penalties of \$60,800. On June 27, 2016, SoCalGas filed an appeal of all four citations on the grounds that no violations of the cited regulations occurred, the citations are all preempted by federal law, the citations were not issued in a timely manner, and two of the citations are duplicative. Adoption of SB 380. The California legislature has enacted and the Governor has signed Senate Bill (SB) 380, which among other things: (1) continues the prohibition against SoCalGas injecting any natural gas into the Aliso Canyon natural gas storage facility until a comprehensive review of the safety of the gas storage wells at the facility is completed in accordance with regulations adopted by the DOGGR, the State Oil and Gas Supervisor has made a safety determination and other required findings, at least one public hearing has been held in the affected community, and the Executive Director of the CPUC has issued a concurring letter regarding the Supervisor's determination of safety; (2) requires that all gas storage wells returning to service shall only inject or produce gas through the interior metal tubing and not through the annulus between the tubing and the well casing, which will result in diminished field production capability; (3) requires the CPUC, in consultation with various governmental agencies and other entities, to determine the range of working gas necessary in Aliso Canyon to ensure safety and reliability for the region and just and reasonable rates in California and publish a report that includes such range and the number of wells and associated injection and production capacity required; (4) requires seeking public comments on the report either through written comments or a workshop; and (5) requires the CPUC, no later than July 1, 2017, to open a proceeding to determine the feasibility of minimizing or eliminating use of the Aliso Canyon natural gas storage facility, while still maintaining energy and electric reliability for the region, and to consult with various governmental agencies and other entities in making its determination.

As required by SB 380, on June 28, 2016, the CPUC published the Report, Aliso Canyon Working Gas Inventory, Production Capacity, Injection Capacity, and Well Availability for Summer 2016 Reliability (SB 380 Report), which incorporates, and is based on the findings of, the Aliso Canyon Risk Assessment Technical Report which was prepared by the staff of the CAISO, CEC, Los Angeles Department of Water and Power (LADWP), SoCalGas and the CPUC. In that report, among other things, the CPUC determined that SoCalGas would need a withdrawal capacity of 1.119 billion cubic feet (Bcf) per day to meet the reliability needs of customers. In addition, the CPUC directed SoCalGas to keep 17 specified wells that have completed the Phase I testing required by DOGGR available for reliability-related withdrawals.

Natural Gas Storage Operations. SoCalGas estimates that approximately 57 Bcf of natural gas has been delivered to customers from an initial starting point of approximately 77 Bcf of gas in storage on October 23, 2015 at the Aliso Canyon facility. SoCalGas completed its measurement of the natural gas lost from the leak and calculated that approximately 4.62 Bcf of natural gas was released from the Aliso Canyon natural gas storage facility as a result of the leak. In January of 2016, the CPUC directed SoCalGas to retain a minimum of 15 Bcf of working natural gas to help ensure reliability of the system, with withdrawals permitted only to meet reliability needs under a limited set of circumstances. Effective February 5, 2016, the DOGGR issued Emergency Regulations that amended the California Code of Regulations to require all underground natural gas storage facility operators, including SoCalGas, to take further steps to help ensure the safety of their gas storage operations. On July 8, 2016, DOGGR issued a Discussion Draft of new permanent regulations for all storage fields in California.

Natural gas withdrawn from storage is important for service reliability during peak demand periods, including peak electric generation needs in the summer and heating needs in the winter. Aliso Canyon, with a storage capacity of 86 Bcf, is the largest SoCalGas storage facility and an important element of SoCalGas' delivery system. Aliso Canyon represents 63 percent of SoCalGas' owned natural gas storage inventory capacity. SoCalGas has not injected natural gas into Aliso Canyon since October 25, 2015, in accordance with the Governor's Order, but in conflict with the CPUC's reliability-based direction, which requires injections to reach higher inventory levels prior to the winter season. On March 4, 2016, the DOGGR issued Order 1109, Order to Take Specific Actions Regarding Aliso Canyon Gas Storage Facility (Safety Review Testing Regime). On April 7, 2016, SoCalGas announced its safety framework to comply with the DOGGR Order 1109, which consists of phased testing for each of the active injection wells in the Aliso Canyon storage facility. SoCalGas will continue this moratorium on further injections until all required approvals have been obtained.

On April 5, 2016, four energy agencies—the CPUC, CEC, CAISO, and LADWP—issued an Aliso Canyon Action Plan to Preserve Gas and Electric Reliability for the Los Angeles Basin. In their Action Plan, the agencies recognized that: Aliso Canyon is critical to meeting peak demand in both winter and summer; the Greater Los Angeles region could face an estimated 16 days of gas curtailments this upcoming summer—assuming no withdrawals of any of the 15 Bcf held at Aliso Canyon; and unless gas is withdrawn from Aliso Canyon, 14 of these days are likely to be large enough to interrupt natural gas service to electric generators located in the Los Angeles Basin. To help mitigate concerns about natural gas service reliability to customers, including related impacts on natural gas-fueled power generation, SoCalGas, SDG&E and 24 customer organizations filed a settlement agreement with the CPUC on April 29, 2016 regarding procedures to help deal with service reliability issues this upcoming summer. The procedures, which address supply shortages and surpluses using temporarily modified Operational Flow Order (OFO) tariff provisions, were approved by the CPUC on June 9, 2016, and will be in place through no later than November 30, 2016. There can be no assurance that these measures will prevent gas curtailments or power outages during the period Aliso Canyon remains offline.

If the Aliso Canyon facility were to be taken out of service for any meaningful period of time, it could result in an impairment of the facility, significantly higher than expected operating costs and/or additional capital expenditures, and natural gas reliability and electric generation could be jeopardized. At June 30, 2016, the Aliso Canyon facility has a net book value of \$441 million, including \$199 million of construction work in progress for the project to construct a new compression station. Any significant impairment of this asset could have a material adverse effect on SoCalGas' and Sempra Energy's results of operations for the period in which it is recorded. Higher operating costs and additional capital expenditures incurred by SoCalGas may not be recoverable in customer rates, and SoCalGas' and Sempra Energy's results of operations, cash flows and financial condition may be materially adversely affected.

Other

SoCalGas, along with Monsanto Co., Solutia, Inc., Pharmacia Corp. and Pfizer, Inc., are defendants in seven Los Angeles County Superior Court lawsuits filed beginning in April 2011 seeking recovery of unspecified amounts of damages, including punitive damages, as a result of plaintiffs' exposure to PCBs (polychlorinated biphenyls). The lawsuits allege plaintiffs were exposed to PCBs not only through the food chain and other various sources but from PCB-contaminated natural gas pipelines owned and operated by SoCalGas. This contamination allegedly caused plaintiffs to develop cancer and other serious illnesses. Plaintiffs assert various bases for recovery, including negligence and products liability. SoCalGas has settled six of the seven lawsuits for an amount that is not significant.

Sempra Mexico

Permit Challenges and Property Disputes

Sempra Mexico has been engaged in a long-running land dispute relating to property adjacent to its Energía Costa Azul LNG terminal near Ensenada, Mexico. Ownership of the adjacent property is not required by any of the environmental or other regulatory permits issued for the operation of the terminal. A claimant to the adjacent property has nonetheless asserted that his health and safety are endangered by the operation of the facility, and filed an action in the Federal Court challenging the permits. In February 2011, based on a complaint by the claimant, the municipality of Ensenada opened an administrative proceeding and sought to temporarily close the terminal based on claims of irregularities in municipal permits issued six years earlier. This attempt was promptly countermanded by Mexican federal and Baja California state authorities. No terminal permits or operations were affected as a result of these proceedings or events and the terminal has continued to operate normally. In the second quarter of 2014, the municipality of Ensenada dismissed the administrative proceeding. In the second quarter of 2015, the Administrative Court of Baja California confirmed the municipality of Ensenada's ruling and dismissed the proceeding. Sempra Mexico expects additional Mexican court proceedings and governmental actions regarding the claimant's assertions as to whether the terminal's permits should be modified or revoked in any manner.

The claimant also filed complaints in the federal Agrarian Court challenging the refusal of the Secretaría de la Reforma Agraria (now the Secretaría de Desarrollo Agrario, Territorial y Urbano, or SEDATU) in 2006 to issue a title to him for the disputed property. In November 2013, the Agrarian Court ordered that SEDATU issue the requested title and cause it to be registered. Both SEDATU and Sempra Mexico challenged the ruling, due to lack of notification

of the underlying process. In November 2015, the Agrarian Court denied Sempra Mexico's challenge, but the ruling does not affect any property rights. Another appeal filed by SEDATU is pending. Sempra Mexico expects additional proceedings regarding the claims, although such proceedings are not related to the permit challenges referenced above.

The property claimant also filed a lawsuit in July 2010 against Sempra Energy in Federal District Court in San Diego seeking compensatory and punitive damages as well as the earnings from the Energía Costa Azul LNG terminal based on his allegations that he was wrongfully evicted from the adjacent property and that he has been harmed by other allegedly improper actions. In September 2015, the Court granted Sempra Energy's motion for summary judgment and closed the case. In October 2015, the claimant filed a notice of appeal of the summary judgment and an earlier order dismissing certain of his causes of action.

Additionally, several administrative challenges are pending in Mexico before the Mexican environmental protection agency (SEMARNAT) and the Federal Tax and Administrative Courts seeking revocation of the environmental impact authorization (EIA) issued to Energía Costa Azul in 2003. These cases generally allege that the conditions and mitigation measures in the EIA are inadequate and challenge findings that the activities of the terminal are consistent with regional development guidelines. The Mexican Supreme Court decided to exercise jurisdiction over one such case, and in March 2014, issued a resolution denying the relief sought by the plaintiff on the grounds its action was not timely presented. A similar administrative challenge seeking to revoke the port concession for our marine operations at our Energía Costa Azul LNG terminal was filed with and rejected by the Mexican Communications and Transportation Ministry. In April 2015, the Federal court confirmed the Mexican Communications and Transportation Ministry's ruling denying the request to revoke the port concession and decided in favor of Energía Costa Azul. Two real property cases have been filed against Energía Costa Azul in which the plaintiffs seek to annul the recorded property titles for parcels on which the Energía Costa Azul LNG terminal is situated and to obtain possession of different parcels that allegedly sit in the same place; one of these cases was dismissed in September 2013 at the direction of the state appellate court. A third complaint was served in April 2013 seeking to invalidate the contract by which Energía Costa Azul purchased another of the terminal parcels, on the grounds the purchase price was unfair. Sempra Mexico expects further proceedings on the remaining two matters.

Sempra Natural Gas

Since April 2012, a total of 14 lawsuits have been filed against Mobile Gas in Mobile County Circuit Court alleging that in the first half of 2008 Mobile Gas spilled tert-butyl mercaptan, an odorant added to natural gas for safety reasons, in Eight Mile, Alabama. Eleven of the lawsuits have been settled. A small percentage of the plaintiffs in these lawsuits did not sign individual releases and are expected to continue to pursue claims against Mobile Gas. The remaining three lawsuits, which include approximately 250 individual plaintiffs, allege nuisance, fraud and negligence causes of action, and seek unspecified compensatory and punitive damages. Under the terms of the agreement to sell 100 percent of the outstanding equity of EnergySouth, the parent company of Mobile Gas, as discussed in Note 3, this litigation will be retained by Mobile Gas at the close of the transaction.

Other Litigation

Sempra Energy holds a noncontrolling interest in RBS Sempra Commodities LLP (RBS Sempra Commodities), a limited liability partnership in the process of being liquidated. The Royal Bank of Scotland plc (RBS), our partner in the joint venture, was notified by the United Kingdom's Revenue and Customs Department (HMRC) that it was investigating value-added tax (VAT) refund claims made by various businesses in connection with the purchase and sale of carbon credit allowances. HMRC advised RBS that it had determined that it had grounds to deny such claims by RBS related to transactions by RBS Sempra Energy Europe (RBS SEE), a former indirect subsidiary of RBS Sempra Commodities that was sold to JP Morgan. HMRC asserted that RBS was not entitled to reduce its VAT liability by VAT paid during 2009 because RBS knew or should have known that certain vendors in the trading chain did not remit their own VAT to HMRC. In September 2012, HMRC issued a protective assessment of £86 million for

the VAT paid in connection with these transactions. In October 2014, RBS filed a Notice of Appeal of the September 2012 assessment with the First-tier Tribunal. As a condition of the appeal, RBS was required to pay the assessed amount. The payment also stops the accrual of interest that could arise should it ultimately be determined that RBS has a liability for some of the tax. RBS has asserted that HMRC's assessment was time-barred. A preliminary hearing is scheduled for September 19 to 21, 2016. In June 2015, liquidators for three companies that engaged in carbon credit trading via chains that included a company that RBS SEE traded with directly filed a claim in the High Court of Justice against RBS and RBS Sempra Commodities alleging that RBS Sempra Commodities' and RBS SEE's participation in transactions involving the sale and purchase of carbon credits resulted in the companies' incurring VAT liability they were unable to pay. In October 2015, the liquidators' counsel filed an amended claim adding seven additional trading companies to the claim and asserting damages of £146 million for all 10 companies. Additionally, the claimants dropped RBS Sempra Commodities LLP as a defendant, adding the successor to RBS SEE and JP Morgan, Mercuria Energy Europe Trading Limited (Mercuria), in its stead. JP Morgan has notified us that Mercuria has sought indemnity for the claim, and JP Morgan has in turn sought indemnity from us. Our remaining balance in RBS Sempra Commodities is accounted for under the equity method. The investment balance of \$67 million at June 30, 2016 reflects remaining distributions expected to be received from the partnership as it is liquidated. The timing and amount of distributions may be impacted by these matters. We discuss RBS Sempra Commodities further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

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

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

CONTRACTUAL AND OTHER COMMITMENTS

We discuss below significant changes in the first six months of 2016 to contractual commitments discussed in Notes 1 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Natural Gas Contracts

Sempra Natural Gas' natural gas purchase and transportation commitments have decreased by \$111 million since December 31, 2015, primarily due to payments on existing contracts and changes in forward natural gas prices in the first six months of 2016. Net future payments are expected to decrease by \$97 million in 2016, increase by \$14 million in 2017 and decrease by \$8 million in 2018, \$16 million in 2019 and \$4 million in 2020 compared to December 31, 2015.

In the second quarter of 2016, Sempra Natural Gas permanently released pipeline capacity that it held with Rockies Express and others. The effect of the permanent capacity releases resulted in a pretax charge of \$206 million (\$123 million after-tax), which is included in Other Cost of Sales on the Sempra Energy Condensed Consolidated Statement of Operations in the three months and six months ended June 30, 2016. The charge represents an acceleration of costs

that would otherwise have been recognized over the duration of the contracts. In connection with the capacity releases, Sempra Natural Gas has recorded \$41 million in Other Current Liabilities and \$118 million in Deferred Credits and Other on the Sempra Energy Condensed Consolidated Balance Sheet at June 30, 2016, representing the amounts by which Sempra Natural Gas' obligation to make future capacity payments is expected to exceed proceeds generated from the permanent capacity releases.

LNG Purchase Agreement

Sempra Natural Gas has a purchase agreement for the supply of LNG to the Energía Costa Azul terminal. The agreement is priced using a predetermined formula based on natural gas market indices. Although this contract specifies a number of cargoes to be delivered, under its terms, the customer may divert certain cargoes, which would reduce amounts paid under the contracts by Sempra Natural Gas.

Sempra Natural Gas' commitment under the LNG purchase agreement, reflecting changes in forward prices since December 31, 2015 and actual transactions for the first six months of 2016, is expected to decrease by \$196 million in 2016, increase by \$61 million in 2017 and \$13 million in 2018, decrease by \$9 million in 2019 and \$33 million in 2020 and increase by \$108 million thereafter (through contract termination in 2029) compared to December 31, 2015. These amounts are based on forward prices of the index applicable to the contract from 2016 to 2028 and an estimated one percent escalation per year beyond 2028 through contract termination in 2029. The LNG commitment amounts above are based on the requirement for Sempra Natural Gas to accept the maximum possible delivery of cargoes under the agreement. Actual LNG purchases in the current and prior years have been significantly lower than the maximum amounts possible due to the customer electing to divert cargoes as allowed by the agreement.

Asset Retirement Obligations

Contractual commitments for asset retirement obligations at SDG&E, SoCalGas and Sempra Energy Consolidated increased by \$26 million, \$316 million and \$342 million, respectively, since December 31, 2015, primarily for natural gas assets, as a result of updated cost studies completed for the 2016 General Rate Case filing. We discuss the 2016 General Rate Case in Note 10.

NUCLEAR INSURANCE

SDG&E and the other owners of SONGS have insurance to cover claims from nuclear liability incidents arising at SONGS. This insurance provides \$375 million in coverage limits, the maximum amount available, including coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to \$13.2 billion of secondary financial protection (SFP). If a nuclear liability loss occurring at any U.S. licensed/commercial reactor exceeds the \$375 million insurance limit, all nuclear reactor owners could be required to contribute to the SFP. SDG&E's contribution would be up to \$50.93 million. This amount is subject to an annual maximum of \$7.6 million, unless a default occurs by any other SONGS owner. If the SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have \$2.75 billion of nuclear property, decontamination, and debris removal insurance, subject to a \$2.5 million deductible for "each and every loss." This insurance coverage is provided through Nuclear Electric Insurance Limited (NEIL). The NEIL policies have specific exclusions and limitations that can result in reduced or eliminated coverage. Insured members as a group are subject to retrospective premium assessments to cover losses sustained by NEIL under all issued policies. SDG&E could be assessed up to \$9.7 million of retrospective premiums based on overall member claims. See Note 9 under "Settlement with NEIL" for discussion of an agreement between the SONGS co-owners and NEIL to settle all claims under the NEIL policies associated with the SONGS outage.

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.

U.S. DEPARTMENT OF ENERGY NUCLEAR FUEL DISPOSAL

The Nuclear Waste Policy Act of 1982 made the DOE responsible for accepting, transporting, and disposing 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. SDG&E will continue to support Edison in its pursuit of claims on behalf of the SONGS co-owners against the DOE for its failure to timely accept the spent nuclear fuel. On April 18, 2016, Edison executed a spent fuel settlement agreement with the DOE for \$162 million covering damages incurred from January 1, 2006 through December 31, 2013. In May 2016, Edison refunded SDG&E \$32 million for its respective share of the damage award paid. In applying this refund, SDG&E recorded a \$23 million reduction to the SONGS regulatory asset, an \$8 million reduction of its nuclear decommissioning balancing account and a \$1 million reduction in its SONGS operation and maintenance cost balancing account.

In October 2015, the California Coastal Commission approved Edison's application for the proposed expansion of an Independent Spent Fuel Storage Installation (ISFSI) at SONGS. The ISFSI expansion began construction in 2016, will be fully loaded with spent fuel by 2019, and will operate until 2049, when it is assumed that the DOE will have taken custody of all the SONGS spent fuel. The ISFSI would then be decommissioned, and the site restored to its original environmental state.

We provide additional information about SONGS in Note 9 above and in Notes 13 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

CONCENTRATION OF CREDIT RISK

We maintain credit policies and systems to manage our overall credit risk. These policies include an evaluation of potential counterparties' financial condition and an assignment of credit limits. These credit limits are established based on risk and return considerations under terms customarily available in the industry. We grant credit to utility customers and counterparties, substantially all of whom are located in our service territory, which covers most of Southern California and a portion of central California for SoCalGas, and all of San Diego County and an adjacent portion of Orange County for SDG&E. We also grant credit to utility customers and counterparties of our other companies providing natural gas or electric services in Mexico, Chile, Peru, southwest Alabama, and Hattiesburg, Mississippi.

As they become operational, projects owned or partially owned by Sempra Natural Gas, Sempra Renewables, Sempra South American Utilities and Sempra Mexico place significant reliance on the ability of their suppliers, customers and partners to perform on long-term agreements and on our ability to enforce contract terms in the event of nonperformance. We consider many factors, including the negotiation of supplier and customer agreements, when we evaluate and approve development projects.

NOTE 12. SEGMENT INFORMATION

We have six separately managed, reportable segments, as follows:

1. SDG&E provides electric service to San Diego and southern Orange counties and natural gas service to San Diego County.

2. SoCalGas is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.

3. Sempra South American Utilities develops, owns and operates, or holds interests in, electric transmission, distribution and generation infrastructure in Chile and Peru.

4. Sempra Mexico develops, owns and operates, or holds interests in, natural gas transmission pipelines and propane and ethane systems, a natural gas distribution utility, electric generation facilities (including wind), a terminal for the import of LNG, and marketing operations for the purchase of LNG and the purchase and sale of natural gas in Mexico. In February 2016, management approved a plan to market and sell the TdM natural gas-fired power plant located in Mexicali, Baja California, as we discuss in Note 3.

5. Sempra Renewables develops, owns and operates, or holds interests in, wind and solar energy projects in Arizona, California, Colorado, Hawaii, Indiana, Kansas, Michigan, Minnesota, Nebraska, Nevada and Pennsylvania to serve wholesale electricity markets in the United States.

6. Sempra Natural Gas develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities, natural gas distribution utilities and a terminal for the import and export of LNG and sale of natural gas, all within the United States. In May 2016, Sempra Natural Gas completed the sale of its 25-percent interest in Rockies Express, as we discuss in Note 3. In April 2016, we entered into an agreement to sell EnergySouth, the parent company of Mobile Gas and Willmut Gas, the two natural gas distribution utilities owned by Sempra Natural Gas, as we discuss in Note 3. Sempra Natural Gas also owned and operated the Mesquite Power plant, a natural gas-fired electric generation asset, the remaining 625-MW block of which was sold in April 2015.

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

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

Common services shared by the business segments are assigned directly or allocated based on various cost factors, depending on the nature of the service provided. Interest income and expense is recorded on intercompany loans. The loan balances and related interest are eliminated in consolidation.

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

SEGMENT
INFORMATION

(Dollars
in
millions)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
REVENUES				
SoCalGas	\$972	\$972	\$1,983	\$1,938
Sempra South American Utilities	385	389	785	778
Sempra Mexico	147	152	285	315

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Sempra Renewables	10	1	13	18	1
Sempra Natural Gas	155	7	220	5	352
Adjustments and eliminations	(1)			(1)	
Intersegment revenues(1)	(90)	(4)	(158)	(3)	(179)
Total	\$2,367	100%	\$4,778	100%	\$5,049

INTEREST
EXPENSE

SoCalGas	\$52		\$96		\$104
Sempra South American Utilities	8		20		13
Sempra Mexico	6		8		11
Sempra Renewables	1				2
Sempra Natural Gas	23		22		44
All other	65		146		128
Intercompany eliminations	(35)		(53)		(67)
Total	\$139		\$285		\$273

INTEREST
INCOME

SoCalGas	\$3		\$		\$3
Sempra South American Utilities	5		10		9
Sempra Mexico	2		3		4
Sempra Renewables	1		1		1
Sempra Natural Gas	25		33		44
Intercompany eliminations	(26)		(35)		(44)
Total	\$10		\$12		\$17

DEPRECIATION AND
AMORTIZATION

SoCalGas	\$149	48%	\$317	49%	\$294	48%
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Sempra South American Utilities	14	4	113	37	234	36	226	37
Sempra Mexico	15	5	17	6	32	5	34	6
Sempra Renewables	2	1	1		3	1	3	
Sempra Natural Gas	12	4	12	4	25	4	24	4
All other	1		3	1	4	1	4	1
Total	31	100%	\$307	100%	\$642	100%	\$610	100%

INCOME TAX EXPENSE
(BENEFIT)

Sempra South American Utilities	15		\$54		\$120		\$142
Sempra Mexico	(12)		16		58		111
Sempra Renewables	(9)		(11)		(21)		(28)
Sempra Natural Gas	(9)		27		(124)		29
All other	(20)		(11)		(55)		(40)
Total	(6)		\$98		\$36		\$261

SEGMENT
INFORMATION
(CONTINUED)

(Dollars
in
millions)

Three months ended June 30,	Six months ended June 30,
2016	2015
2016	2015

EQUITY
EARNINGS
(LOSSES)
Earnings
(losses)

recorded
before
tax:

Sempra Renewables	\$10	\$18	\$12
Sempra Natural Gas	17	(26)	34
Total	\$27	\$(8)	\$46

Earnings
(losses)
recorded
net of tax:

Sempra South American Utilities	\$	\$2	\$(1)
Sempra Mexico	22	48	38
Total	\$22	\$50	\$37

**EARNINGS
(LOSSES)**

SDG&E	\$126	\$229	\$273
SoCalGas	(270)	194	284
Sempra South American Utilities	45	81	86
Sempra Mexico	50	74	97
Sempra Renewables	19	25	32
Sempra Natural Gas	(149)	(185)	42
All other	(46)	(55)	(83)
Total	\$295	\$335	\$732

Six months ended June 30,
2016 2015

**EXPENDITURES
FOR
PROPERTY,
PLANT &
EQUIPMENT**

SDG&E	\$602	30 %	\$600	41 %
SoCalGas	650	32	603	41
Sempra South American Utilities	82	4	66	5

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Sempra Mexico	140	7	120	8
Sempra Renewables	457	23	22	1
Sempra Natural Gas	68	3	28	2
All other	7	1	27	2
Total	\$2,006	100%	\$1,466	100%
	June 30, 2016		December 31, 2015	

ASSETS

SDG&E	\$17,039	40 %	\$16,515	40 %
SoCalGas	13,086	30	12,104	29
Sempra South American Utilities	3,486	8	3,235	8
Sempra Mexico	3,925	9	3,783	9
Sempra Renewables	1,838	4	1,441	4
Sempra Natural Gas	5,396	13	5,566	13
All other	803	2	734	2
Intersegment receivables	(2,698)	(6)	(2,228)	(5)
Total	\$42,875	100%	\$41,150	100%

EQUITY

METHOD AND OTHER INVESTMENTS

Sempra South American Utilities	\$(1)		\$(4)	
Sempra Mexico	548		519	
Sempra Renewables	827		855	
Sempra Natural Gas	818		1,460	
All other	75		75	
Total	\$2,267		\$2,905	

(1) Revenues for reportable segments include intersegment revenues of a negligible amount,

\$18 million, \$27 million and \$36 million for the three months ended June 30, 2016; \$3 million, \$35 million, \$54 million and \$66 million for the six months ended June 30, 2016; \$3 million, \$17 million, \$24 million and \$46 million for the three months ended June 30, 2015; and \$5 million, \$36 million, \$49 million and \$89 million for the six months ended June 30, 2015 for SDG&E, SoCalGas, Sempra Mexico and Sempra Natural Gas, respectively.

(2) After preferred dividends.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the Condensed Consolidated Financial Statements and the Notes thereto contained in this Form 10-Q, and the Consolidated Financial Statements and the Notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" contained in our 2015 Annual Report on Form 10-K (Annual Report).

OVERVIEW

Sempra Energy is a Fortune 500 energy-services holding company whose operating units invest in, develop and operate energy infrastructure, and provide gas and electricity services to their customers in North and South America. Our operating units are our California Utilities, which are San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), Sempra International and Sempra U.S. Gas & Power. SDG&E and SoCalGas are separate, reportable segments. Sempra International includes two reportable segments – Sempra South American Utilities and Sempra Mexico. Sempra U.S. Gas & Power also includes two reportable segments – Sempra Renewables and Sempra Natural Gas.

This report includes information for the following separate registrants:

§ Sempra Energy and its consolidated entities

§ SDG&E

§ SoCalGas

References to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, collectively, unless otherwise indicated by its context. All references to "Sempra International" and "Sempra U.S. Gas & Power," and to their respective principal segments, are not intended to refer to any legal entity with the same or similar name.

Throughout this report, we refer to the following as Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements when discussed together or collectively:

§ the Condensed Consolidated Financial Statements and related Notes of Sempra Energy and its subsidiaries and variable interest entities (VIEs),

§ the Condensed Consolidated Financial Statements and related Notes of SDG&E and its VIE, and

§ the Condensed Financial Statements and related Notes of SoCalGas.

Below are summary descriptions of our operating units and their reportable segments.

SEMPRA ENERGY OPERATING UNITS AND REPORTABLE SEGMENTS

CALIFORNIA UTILITIES

	MARKET	SERVICE TERRITORY
SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) A regulated public utility; infrastructure supports electric generation, transmission and distribution, and natural gas distribution	§ Provides electricity to a population of 3.6 million (1.4 million meters) § Provides natural gas to a population of 3.3 million (0.9 million meters)	Serves the county of San Diego, California and an adjacent portion of southern Orange County covering 4,100 square miles
SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) A regulated public utility; infrastructure supports natural gas distribution, transmission and storage	§ Residential, commercial, industrial, utility electric generation and wholesale customers § Covers a population of 21.6 million (5.9 million meters)	Southern California and portions of central California (excluding San Diego County, the city of Long Beach and the desert area of San Bernardino County) covering 20,000 square miles

We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include the utilities in our Sempra International or Sempra U.S. Gas & Power operating units described below.

SEMPRA INTERNATIONAL

	MARKET	GEOGRAPHIC REGION
SEMPRA SOUTH AMERICAN UTILITIES Develops, owns and operates, or holds interests in electric transmission, distribution and generation infrastructure	§ Provides electricity to a population of approximately 2 million (approximately 672,000 meters) in Chile and approximately 4.9 million consumers (approximately 1,053,000 meters) in Peru	§ Chile § Peru
SEMPRA MEXICO Develops, owns and operates, or holds interests in: § natural gas transmission pipelines and propane and ethane systems § a natural gas distribution utility § electric generation facilities, including wind § a terminal for the import of liquefied natural gas (LNG) § marketing operations for the purchase of LNG and the purchase and sale of natural gas	§ Natural gas § Wholesale electricity § Liquefied natural gas	§ Mexico

SEMPRA U.S. GAS & POWER

	MARKET	GEOGRAPHIC REGION
SEMPRA RENEWABLES	§ Wholesale electricity	§ U.S.A.

Develops, owns, operates, or holds interests in renewable energy generation projects

SEMPRA NATURAL GAS

Develops, owns and operates, or holds interests in:

§ natural gas midstream and LNG

 natural gas pipelines and storage facilities

 a terminal in the U.S. for the import and export of LNG and sale of natural gas

 marketing operations

§ natural gas distribution utilities (held for sale at June 30, 2016)

§ Natural gas

§ Liquefied natural

gas

§ U.S.A.

RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

§ Overall