

SAN DIEGO GAS & ELECTRIC CO
Form 10-Q
May 02, 2013

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 March 31, 2013

or

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

For the transition period from _____ to _____

Commission File No.	Exact Name of Registrants as Specified in their Charters, Address and Telephone Number	States of Incorporation	I.R.S. Employer Identification Nos.	Former name, former address and former fiscal year, if changed since last report
1-14201	SEMPRA ENERGY 101 Ash Street San Diego, California 92101 (619)696-2000	California	33-0732627	No change
1-03779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California	95-1184800	No change
1-01402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (213)244-1200	California	95-1240705	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	[X]	[]	[]	[]
San Diego Gas & Electric Company	[]	[]	[X]	[]
Southern California Gas Company	[]	[]	[X]	[]

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

Sempra Energy	Yes	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 April 29, 2013:

Sempra Energy	243,577,278 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
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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,” “depends,” “should,” “could,” “would,” “will,” “may,” “potential,” “target,” “pursue,” “goals,” or similar expressions, or when we discuss our guidance, strategy, plans, goals, initiatives, objectives or intentions, we are

making forward-looking statements.

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

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

§ actions and the timing of actions by the California Public Utilities Commission, California State Legislature, Federal Energy Regulatory Commission, U.S. Department of Energy, Nuclear Regulatory Commission, California Energy Commission, California Air Resources Board, and other regulatory, governmental and environmental bodies in the United States and other countries in which we operate;

§ capital markets conditions, including the availability of credit and the liquidity of our investments;

§ inflation, interest and exchange rates;

§ the impact of benchmark interest rates, generally Moody's A-rated utility bond yields, on our California Utilities' cost of capital;

§ the timing and success of business development efforts and construction, maintenance and capital projects, including risks inherent in the ability to obtain, and the timing of granting of, permits, licenses, certificates and other authorizations;

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

§ the availability of electric power, natural gas and liquefied natural gas, including disruptions caused by failures in the North American transmission grid, pipeline explosions and equipment failures;

§ weather conditions, natural disasters, catastrophic accidents, and conservation efforts;

§ risks inherent in nuclear power generation and radioactive materials storage, including the catastrophic release of such materials, the disallowance of the recovery of the investment in or operating costs of the generation facility due to an extended outage, and increased regulatory oversight;

§ risks posed by decisions and actions of third parties who control the operations of investments in which we do not have a controlling interest;

§ wars, terrorist attacks and cybersecurity threats;

§ business, regulatory, environmental and legal decisions and requirements;

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

§ the impact on reliability of SDG&E's electric transmission and distribution system due to increased power supply from renewable energy sources;

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

§

the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements;

§ the resolution of litigation; and

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

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described in this report and in our 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 March 31,	
	2013	2012
	(unaudited)	
REVENUES		
Utilities	\$ 2,334	\$ 2,091
Energy-related businesses	316	292
Total revenues	2,650	2,383
EXPENSES AND OTHER INCOME		
Utilities:		
Cost of natural gas	(556)	(431)
Cost of electric fuel and purchased power	(447)	(388)
Energy-related businesses:		
Cost of natural gas, electric fuel and purchased power	(111)	(129)
Other cost of sales	(48)	(33)
Operation and maintenance	(724)	(671)
Depreciation and amortization	(295)	(257)
Franchise fees and other taxes	(106)	(96)
Gain on sale of asset	74	
Equity earnings, before income tax	10	12
Other income, net	37	75
Interest income	6	5
Interest expense	(138)	(113)
Income before income taxes and equity earnings of certain unconsolidated subsidiaries	352	357
Income tax expense	(178)	(117)
Equity earnings, net of income tax	4	11
Net income	178	251

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Losses (earnings) attributable to noncontrolling interests		2		(13)
Preferred dividends of subsidiaries		(2)		(2)
Earnings	\$	178	\$	236
Basic earnings per common share	\$	0.73	\$	0.98
Weighted-average number of shares outstanding, basic (thousands)		243,294		240,566
Diluted earnings per common share	\$	0.72	\$	0.97
Weighted-average number of shares outstanding, diluted (thousands)		247,534		243,761
Dividends declared per share of common stock	\$	0.63	\$	0.60

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,					
	2013			2012		
	(unaudited)					
	Sempra Energy	Non-controlling Interests	Total	Sempra Energy	Non-controlling Interests	Total
Net income (loss)	\$ 180	\$ (2)	\$ 178	\$ 238	\$ 13	\$ 251
Other comprehensive income (loss), net of income tax:						
Foreign currency translation adjustments	10	(4)	6	67	4	71
Net actuarial gain	3		3	1		1
Financial instruments	(14)	3	(11)	3		3
Total other comprehensive income (loss)	(1)	(1)	(2)	71	4	75
Total comprehensive income (loss)	179	(3)	176	309	17	326
Preferred dividends of subsidiaries	(2)		(2)	(2)		(2)
Total comprehensive income (loss), after preferred dividends of subsidiaries	\$ 177	\$ (3)	\$ 174	\$ 307	\$ 17	\$ 324

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	March 31, 2013 (unaudited)	December 31, 2012(1)
ASSETS		

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Current assets:

Cash and cash equivalents	\$	1,471	\$	475
Restricted cash		57		46
Trade accounts receivable, net		1,131		1,146
Other accounts and notes receivable, net		198		153
Income taxes receivable		73		56
Deferred income taxes		28		148
Inventories		270		408
Regulatory balancing accounts – undercollected		411		395
Regulatory assets		42		62
Fixed-price contracts and other derivatives		88		95
U.S. Treasury grants receivable		236		258
Asset held for sale, power plant				296
Other		118		157
Total current assets		4,123		3,695

Investments and other assets:

Restricted cash		19		22
Regulatory assets arising from pension and other postretirement benefit obligations		1,167		1,151
Regulatory assets arising from wildfire litigation costs		360		364
Other regulatory assets		1,233		1,227
Nuclear decommissioning trusts		952		908
Investments		1,519		1,516
Goodwill		1,113		1,111
Other intangible assets		434		436
Sundry		895		878
Total investments and other assets		7,692		7,613

Property, plant and equipment:

Property, plant and equipment		34,011		33,528
Less accumulated depreciation and amortization		(8,553)		(8,337)
Property, plant and equipment, net (\$459 and \$466 at March 31, 2013 and December 31, 2012, respectively, related to VIE)		25,458		25,191
Total assets	\$	37,273	\$	36,499

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

		March 31, 2013 (unaudited)		December 31, 2012(1)
LIABILITIES AND EQUITY				
Current liabilities:				
Short-term debt	\$	762	\$	546

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Accounts payable – trade	874	976
Accounts payable – other	116	134
Dividends and interest payable	323	266
Accrued compensation and benefits	217	337
Regulatory balancing accounts – overcollected	294	141
Current portion of long-term debt	1,381	725
Fixed-price contracts and other derivatives	71	77
Customer deposits	142	143
Reserve for wildfire litigation	221	305
Other	788	608
Total current liabilities	5,189	4,258
Long-term debt (\$332 and \$335 at March 31, 2013 and December 31, 2012, respectively, related to VIE)	10,680	11,621
Deferred credits and other liabilities:		
Customer advances for construction	139	144
Pension and other postretirement benefit obligations, net of plan assets	1,466	1,456
Deferred income taxes	2,248	2,100
Deferred investment tax credits	46	46
Regulatory liabilities arising from removal obligations	2,783	2,720
Asset retirement obligations	2,056	2,033
Fixed-price contracts and other derivatives	254	252
Reserve for wildfire litigation	45	22
Deferred credits and other	1,027	1,085
Total deferred credits and other liabilities	10,064	9,858
Contingently redeemable preferred stock of subsidiary	79	79
Commitments and contingencies (Note 10)		
Equity:		
Preferred stock (50 million shares authorized; none issued)		
Common stock (750 million shares authorized; 244 million and 242 million shares outstanding at March 31, 2013 and December 31, 2012, respectively; no par value)	2,334	2,217
Retained earnings	8,466	8,441
Accumulated other comprehensive income (loss)	(377)	(376)
Total Sempra Energy shareholders' equity	10,423	10,282
Preferred stock of subsidiary	20	20
Other noncontrolling interests	818	381
Total equity	11,261	10,683
Total liabilities and equity	\$ 37,273	\$ 36,499

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Three months ended March 31,	
	2013	2012
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 178	\$ 251
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	295	257
Deferred income taxes and investment tax credits	252	31
Gain on sale of asset	(74)	
Equity earnings	(14)	(23)
Fixed-price contracts and other derivatives	17	(12)
Other	6	14
Net change in other working capital components	149	168
Changes in other assets	17	12
Changes in other liabilities	9	1
Net cash provided by operating activities	835	699
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(531)	(811)
Expenditures for investments	(5)	(51)
Proceeds from sale of asset	371	
Distributions from investments	15	8
Purchases of nuclear decommissioning and other trust assets	(136)	(134)
Proceeds from sales by nuclear decommissioning and other trusts	134	135
Decrease in restricted cash	52	39
Increase in restricted cash	(60)	(40)
Other	(2)	(5)
Net cash used in investing activities	(162)	(859)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(145)	(115)
Preferred dividends paid by subsidiaries	(2)	(2)
Issuances of common stock	15	13
Repurchases of common stock	(45)	(16)
Issuances of debt (maturities greater than 90 days)	608	1,008
Payments on debt (maturities greater than 90 days)	(645)	(347)
Proceeds from sale of noncontrolling interests, net of \$25 in offering costs	574	
Decrease in short-term debt, net	(43)	(224)
Distributions to noncontrolling interests	(1)	(3)
Other	4	(4)
Net cash provided by financing activities	320	310
Effect of exchange rate changes on cash and cash equivalents	3	2
Increase in cash and cash equivalents	996	152
Cash and cash equivalents, January 1	475	252
Cash and cash equivalents, March 31	\$ 1,471	\$ 404

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
	2013	2012
	(unaudited)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	\$ 87	\$ 62
Income tax payments, net of refunds	14	38
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Accrued capital expenditures	\$ 275	\$ 336
U.S. Treasury grants receivable	(22)	17
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES		
Dividends declared but not paid	\$ 160	\$ 151

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
	2013	2012
	(unaudited)	
Operating revenues		
Electric	\$ 772	\$ 671
Natural gas	167	163
Total operating revenues	939	834
Operating expenses		
Cost of electric fuel and purchased power	209	163
Cost of natural gas	76	67
Operation and maintenance	297	268
Depreciation and amortization	134	112
Franchise fees and other taxes	55	46
Total operating expenses	771	656
Operating income	168	178
Other income, net	11	30
Interest income	1	
Interest expense	(48)	(36)
Income before income taxes	132	172

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Income tax expense	(51)	(60)
Net income	81	112
Losses (earnings) attributable to noncontrolling interest	11	(6)
Earnings	92	106
Preferred dividend requirements	(1)	(1)
Earnings attributable to common shares	\$ 91	\$ 105

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,					
	2013			2012		
	(unaudited)			(unaudited)		
	SDG&E	Non-controlling Interest	Total	SDG&E	Non-controlling Interest	Total
Net income (loss)	\$ 92	\$ (11)	\$ 81	\$ 106	\$ 6	\$ 112
Other comprehensive income, net of income tax:						
Financial instruments		3	3			
Total other comprehensive income		3	3			
Total comprehensive income (loss)	\$ 92	\$ (8)	\$ 84	\$ 106	\$ 6	\$ 112

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	March 31, 2013 (unaudited)	December 31, 2012(1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 106	\$ 87
Restricted cash	15	10
Accounts receivable – trade, net	259	252
Accounts receivable – other, net	34	21
Due from unconsolidated affiliates	1	39
Income taxes receivable		35
Deferred income taxes	12	
Inventories	81	82
Regulatory balancing accounts, net	411	395
Regulatory assets arising from fixed-price contracts and other derivatives	22	39
Other regulatory assets	10	10

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Fixed-price contracts and other derivatives	45	41
Other	43	76
Total current assets	1,039	1,087
Other assets:		
Restricted cash	19	22
Deferred taxes recoverable in rates	727	718
Regulatory assets arising from fixed-price contracts and other derivatives	106	110
Regulatory assets arising from pension and other postretirement benefit obligations	307	303
Regulatory assets arising from wildfire litigation costs	360	364
Other regulatory assets	243	252
Nuclear decommissioning trusts	952	908
Sundry	143	117
Total other assets	2,857	2,794
Property, plant and equipment:		
Property, plant and equipment	14,299	14,124
Less accumulated depreciation and amortization	(3,343)	(3,261)
Property, plant and equipment, net (\$459 and \$466 at March 31, 2013 and December 31, 2012, respectively, related to VIE)	10,956	10,863
Total assets	\$ 14,852	\$ 14,744
(1)	Derived from audited financial statements.	
See Notes to Condensed Consolidated Financial Statements.		

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	March 31, 2013 (unaudited)	December 31, 2012(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 239	\$ 300
Due to unconsolidated affiliates	35	19
Income taxes payable	33	
Deferred income taxes		26
Dividends and interest payable	55	36
Accrued compensation and benefits	63	129
Current portion of long-term debt	16	16
Fixed-price contracts and other derivatives	47	56
Customer deposits	58	60
Construction deposits	51	51
Reserve for wildfire litigation	221	305
Other	170	106
Total current liabilities	988	1,104

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Long-term debt (\$332 and \$335 at March 31, 2013 and December 31, 2012,

respectively, related to VIE)	4,289	4,292
Deferred credits and other liabilities:		
Customer advances for construction	18	17
Pension and other postretirement benefit obligations, net of plan assets	345	340
Deferred income taxes	1,714	1,636
Deferred investment tax credits	26	25
Regulatory liabilities arising from removal obligations	1,658	1,603
Asset retirement obligations	744	733
Fixed-price contracts and other derivatives	200	209
Reserve for wildfire litigation	45	22
Deferred credits and other	361	386
Total deferred credits and other liabilities	5,111	4,971
Contingently redeemable preferred stock	79	79

Commitments and contingencies (Note 10)

Equity:

Common stock (255 million shares authorized; 117 million shares outstanding;

no par value)	1,338	1,338
Retained earnings	2,986	2,895
Accumulated other comprehensive income (loss)	(11)	(11)
Total SDG&E shareholder's equity	4,313	4,222
Noncontrolling interest	72	76
Total equity	4,385	4,298
Total liabilities and equity	\$ 14,852	\$ 14,744

(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)

	2013	Three months ended March 31, (unaudited)	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$	81	\$ 112
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		134	112
Deferred income taxes and investment tax credits		36	152

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Fixed-price contracts and other derivatives	(2)	(3)
Other	5	(27)
Net change in other working capital components	(2)	(85)
Changes in other assets	4	8
Changes in other liabilities	8	(3)
Net cash provided by operating activities	264	266
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(237)	(398)
Purchases of nuclear decommissioning trust assets	(135)	(133)
Proceeds from sales by nuclear decommissioning trusts	134	131
Decrease in restricted cash	17	37
Increase in restricted cash	(19)	(36)
Net cash used in investing activities	(240)	(399)
CASH FLOWS FROM FINANCING ACTIVITIES		
Preferred dividends paid	(1)	(1)
Issuance of long-term debt		249
Payments on long-term debt	(3)	(3)
Distributions to noncontrolling interests	(1)	
Other		(2)
Net cash (used in) provided by financing activities	(5)	243
Increase in cash and cash equivalents	19	110
Cash and cash equivalents, January 1	87	29
Cash and cash equivalents, March 31	\$ 106	\$ 139
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	\$ 28	\$ 17
Income tax refunds		62
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Accrued capital expenditures	\$ 102	\$ 134
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES		
Dividends declared but not paid	\$ 1	\$ 1
See Notes to Condensed Consolidated Financial Statements.		

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Dollars in millions)

Three months ended March 31,
 2013 2012
 (unaudited)

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Operating revenues	\$	983	\$	880
Operating expenses				
Cost of natural gas		454		349
Operation and maintenance		306		289
Depreciation and amortization		100		87
Franchise fees and other taxes		40		36
Total operating expenses		900		761
Operating income		83		119
Other income, net		4		4
Interest expense		(17)		(17)
Income before income taxes		70		106
Income tax expense		(24)		(40)
Net income/Earnings attributable to common shares	\$	46	\$	66

See Notes to Condensed Consolidated Financial Statements.

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

		Three months ended March 31,		
		2013	(unaudited)	2012
Net income	\$	46		\$ 66
Total other comprehensive income, net of income tax				
Total comprehensive income	\$	46		\$ 66

See Notes to Condensed Consolidated Financial Statements.

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

		March 31, 2013 (unaudited)	December 31, 2012(1)
ASSETS			
Current assets:			
Cash and cash equivalents	\$	72	\$ 83
Accounts receivable – trade, net		466	539
Accounts receivable – other, net		94	51
Due from unconsolidated affiliates		276	24
Income taxes receivable		96	104
Deferred income taxes			3
Inventories		34	151
Regulatory assets		4	4

Other	26	35
Total current assets	1,068	994
Other assets:		
Regulatory assets arising from pension and other postretirement benefit obligations	848	835
Other regulatory assets	155	148
Sundry	79	77
Total other assets	1,082	1,060
Property, plant and equipment:		
Property, plant and equipment	11,317	11,187
Less accumulated depreciation and amortization	(4,244)	(4,170)
Property, plant and equipment, net	7,073	7,017
Total assets	\$ 9,223	\$ 9,071
(1) Derived from audited financial statements. See Notes to Condensed Consolidated Financial Statements.		

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

	March 31, 2013 (unaudited)	December 31, 2012(1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – trade	\$ 282	\$ 383
Accounts payable – other	70	82
Due to unconsolidated affiliate		37
Deferred income taxes	8	
Accrued compensation and benefits	94	116
Regulatory balancing accounts, net	294	141
Current portion of long-term debt	254	4
Customer deposits	76	76
Temporary LIFO liquidation	49	
Other	155	124
Total current liabilities	1,282	963
Long-term debt	1,159	1,409
Deferred credits and other liabilities:		
Customer advances for construction	106	111
Pension and other postretirement benefit obligations, net of plan assets	867	855
Deferred income taxes	897	881
Deferred investment tax credits	20	20
Regulatory liabilities arising from removal obligations	1,110	1,103
Asset retirement obligations	1,247	1,238

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Deferred credits and other	254	256
Total deferred credits and other liabilities	4,501	4,464
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	1,411	1,365
Accumulated other comprehensive income (loss)	(18)	(18)
Total shareholders' equity	2,281	2,235
Total liabilities and shareholders' equity	\$ 9,223	\$ 9,071
(1)	Derived from audited financial statements.	
See Notes to Condensed Consolidated Financial Statements.		

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

	Three months ended March 31,	
	2013	2012
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 46	\$ 66
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	100	87
Deferred income taxes and investment tax credits	18	14
Other		(1)
Net change in other working capital components	250	280
Changes in other assets	3	3
Changes in other liabilities	(6)	
Net cash provided by operating activities	411	449
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(179)	(165)
Increase in loans to affiliates, net	(243)	(200)
Net cash used in investing activities	(422)	(365)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid		(50)
Net cash used in financing activities		(50)
(Decrease) increase in cash and cash equivalents	(11)	34
Cash and cash equivalents, January 1	83	36

Cash and cash equivalents, March 31	\$	72 \$	70
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$	12 \$	5
Income tax refunds, net			17
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES			
Accrued capital expenditures	\$	76 \$	64
See Notes to Condensed Consolidated 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 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 11.

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

In the first quarter of 2013, a Sempra Energy subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova), completed a private offering and concurrent public offering of common stock in Mexico. IEnova is reported within the Sempra Mexico reportable segment. We discuss the offerings and IEnova further in Note 5.

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated subsidiaries in Note 4 herein and in Note 4 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2012.

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' Condensed Consolidated Financial Statements include its subsidiaries, which comprise less than one percent of its consolidated financial position and results of operations. SoCalGas' common stock is wholly owned by Pacific Enterprises (PE), which is a wholly owned subsidiary of Sempra Energy.

BASIS OF PRESENTATION

This is a combined report of Sempra Energy, SDG&E and SoCalGas. We provide separate information for SDG&E and SoCalGas as required. References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, unless otherwise indicated by the context. We have eliminated intercompany accounts and transactions within the consolidated financial statements of each reporting entity.

We have prepared the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States (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 March 31, 2013 through the date the financial statements were issued and, in the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal, recurring nature.

All December 31, 2012 balance sheet information in the Condensed Consolidated Financial Statements has been derived from our audited 2012 consolidated financial statements. 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.

You should read the information in this Quarterly Report in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012 (the Annual Report) which is a combined report for Sempra Energy, SDG&E and SoCalGas.

Sempra South American Utilities has controlling interests in two electric distribution utilities in South America. Sempra Natural Gas owns Mobile Gas Service Corporation (Mobile Gas) in southwest Alabama and Willmut Gas Company (Willmut Gas) in Mississippi, and Sempra Mexico owns Ecogas Mexico, S. de R.L. de C.V. (Ecogas) in

Northern Mexico, all natural gas distribution utilities. The California Utilities, Sempra Natural Gas' Mobile Gas and Willmut Gas, and Sempra Mexico's Ecogas prepare their financial statements in accordance with U.S. GAAP provisions governing regulated operations, as we discuss in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

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, except for the adoption of new accounting standards as we discuss in Note 2.

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) 2011-11, "Disclosures about Offsetting Assets and Liabilities" (ASU 2011-11) and ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" (ASU 2013-01): In order to allow for balance sheet comparison between U.S. GAAP and International Financial Reporting Standards (IFRSs), ASU 2011-11 requires enhanced disclosures related to financial assets and liabilities eligible for offsetting in the statement of financial position. An entity must disclose both gross and net information about financial instruments and transactions subject to a master netting arrangement and eligible for offset, including cash collateral received and posted.

ASU 2013-01 clarifies that the scope of ASU 2011-11 applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions.

We adopted ASU 2011-11 and ASU 2013-01 on January 1, 2013 as required and it did not affect our financial condition, results of operations or cash flows. We provide the additional disclosure in Note 7.

ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" (ASU 2013-02): ASU 2013-02 requires an entity to present, either on the face of the statement of operations or in the notes to financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts.

We adopted ASU 2013-02 on January 1, 2013 as required and it did not affect our financial condition, results of operations or cash flows. We provide the additional disclosure in Note 5.

ASU 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date" (ASU 2013-04): The standard provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total

amount of the obligation within the scope of the ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in the ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations.

We will adopt ASU 2013-04 on January 1, 2014 as required and do not expect it to affect our financial condition, results of operations or cash flows. We will provide the additional disclosure in our 2014 interim financial statements.

NOTE 3. ACQUISITION AND INVESTMENT ACTIVITY

We discuss our investments in unconsolidated entities in Note 4.

SEMPRA NATURAL GAS

Mesquite Power Sale

In February 2013, Sempra Natural Gas sold one 625-megawatt (MW) block of its 1,250-MW Mesquite Power natural gas-fired power plant in Arizona, including a portion related to common plant, for approximately \$371 million in cash to the Salt River Project Agricultural Improvement and Power District (SRP). The asset was classified as held for sale at December 31, 2012 and we recognized a gain on the sale of \$74 million in 2013. In connection with the sale, we entered into a 20-year operations and maintenance agreement with SRP on February 28, 2013, whereby SRP assumes plant operations and maintenance of the facility, including our remaining 625-MW block. We provide additional information concerning the operations and maintenance agreement in Note 10.

Willmut Gas Company

In May 2012, Sempra Natural Gas acquired 100 percent of the outstanding common stock of Willmut Gas, a regulated natural gas distribution utility serving approximately 20,000 customers in Hattiesburg, Mississippi, for \$19 million in cash and the assumption of \$10 million of liabilities. Pro forma impacts on revenues and earnings for Sempra Energy had the acquisition occurred on January 1, 2011 were additional revenues of \$6 million and negligible earnings for the three months ended March 31, 2012.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

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

SEMPRA SOUTH AMERICAN UTILITIES

Sempra South American Utilities owns 43 percent of two Argentine natural gas utility holding companies, Sodigas Pampeana and Sodigas Sur. As a result of the devaluation of the Argentine peso at the end of 2001 and subsequent changes in the value of the peso, Sempra South American Utilities reduced the carrying value of its investment by a cumulative total of \$270 million as of March 31, 2013. These noncash adjustments, based on fluctuations in the value of the Argentine peso, did not affect earnings, but were recorded in Comprehensive Income and Accumulated Other Comprehensive Income (Loss).

In December 2006, we decided to sell our Argentine investments, and we continue to actively pursue their sale. We continue to evaluate the fair value of our investment based on several factors and as a result, recorded a noncash impairment charge of \$10 million (\$7 million after-tax) in the first quarter of 2013. The net charge is reported in Equity Earnings, Net of Income Tax on the Condensed Consolidated Statement of Operations for the three months ended March 31, 2013. The remaining carrying value of our investment is \$20 million, excluding an \$80 million deferred tax asset associated with the investment. We provide additional information concerning our investments in Sodigas Pampeana and Sodigas Sur in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA RENEWABLES

Sempra Renewables invested \$5 million and \$50 million in its renewable wind generation joint ventures in the three months ended March 31, 2013 and 2012, respectively.

RBS SEMPRA COMMODITIES

RBS Sempra Commodities LLP (RBS Sempra Commodities) is a United Kingdom limited liability partnership that owned and operated commodities-marketing businesses previously owned by us. We and our partner in the joint venture, The Royal Bank of Scotland plc (RBS), sold substantially all of the partnership's businesses and assets in four separate transactions completed in 2010 and early 2011. We account for our investment in RBS Sempra Commodities under the equity method, and report our share of partnership earnings and other associated costs in Parent and Other.

In April 2011, we and RBS entered into a letter agreement (Letter Agreement) which amended certain provisions of the agreements that formed RBS Sempra Commodities. The Letter Agreement addresses the wind-down of the partnership and the distribution of the partnership's remaining assets. The investment balance of \$126 million at March 31, 2013 reflects remaining distributions expected to be received from the partnership in accordance with the Letter Agreement. The timing and amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities in Note 10 under "Other Litigation." In addition, amounts may be retained by the partnership for an extended period of time to help offset unanticipated future general and administrative costs necessary to complete the dissolution of the partnership.

In connection with the Letter Agreement described above, we also released RBS from its indemnification obligations with respect to the items for which J.P. Morgan Chase & Co. (JP Morgan), one of the buyers of the partnership's businesses, has agreed to indemnify us.

We recorded no equity earnings or losses related to the partnership for the three months ended March 31, 2013 and 2012.

We discuss the RBS Sempra Commodities sales transactions, the Letter Agreement and other matters concerning the partnership in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 5. OTHER FINANCIAL DATA

U.S. TREASURY GRANTS RECEIVABLE

As of March 31, 2013, Sempra Renewables has recorded grants receivable totaling \$236 million. Based on eligible costs at its Mesquite Solar 1 and Copper Mountain Solar 2 generating facilities, the grants are recognized as receivables when the projects, or portions of projects, are placed into service. The grants are expected to be received in 2013. During the first quarter of 2013, the federal government imposed automatic federal budget cuts, known as “sequestration,” as required by The Budget Control Act of 2011. As a result, cash grant payments to eligible taxpayers for renewable energy projects were reduced, and Sempra Renewables recorded a reduction to its grants receivable of \$23 million and a reversal of income tax benefit of \$5 million during the first quarter of 2013.

TEMPORARY LIFO LIQUIDATION

SoCalGas values natural gas inventory by the last-in first-out (LIFO) method. As inventories are sold, differences between the LIFO valuation and the estimated replacement cost are reflected in customer rates. Temporary LIFO liquidation represents the difference between the carrying value of natural gas inventory withdrawn during the period for delivery to customers and the projected cost of the replacement of that inventory during summer months.

INVENTORIES

The components of inventories by segment are as follows:

INVENTORY BALANCES

(Dollars in millions)

	Natural Gas		Liquefied Natural Gas		Materials and Supplies		Total	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
SDG&E	\$ 1	\$ 3	\$	\$	\$ 80	\$ 79	\$ 81	\$ 82
SoCalGas	8	128			26	23	34	151
Sempra South American Utilities					38	34	38	34
Sempra Mexico			7	8	12	8	19	16
Sempra Renewables					3	3	3	3
Sempra Natural Gas	84	109	6	8	5	5	95	122
Sempra Energy Consolidated	\$ 93	\$ 240	\$ 13	\$ 16	\$ 164	\$ 152	\$ 270	\$ 408

GOODWILL

Goodwill is the excess of the purchase price over the fair value of the identifiable net assets of acquired companies measured at the time of acquisition. Goodwill is not amortized but is tested annually on October 1 for impairment or whenever events or changes in circumstances necessitate an evaluation. Impairment of goodwill occurs when the carrying amount (book value) of goodwill exceeds its implied fair value. If the carrying value of the reporting unit, including goodwill, exceeds its fair value, and the book value of goodwill is greater than its fair value on the test date, we record a goodwill impairment loss.

Goodwill included on the Sempra Energy Condensed Consolidated Balance Sheets is recorded as follows:

GOODWILL					
(Dollars in millions)					
		Sempra South American	Sempra Mexico	Sempra Natural Gas	Total
Balance at December 31, 2012	\$	1,014 \$	25 \$	72 \$	1,111
Foreign currency translation(1)		2			2
Balance at March 31, 2013	\$	1,016 \$	25 \$	72 \$	1,113
(1)	We record the offset of this fluctuation to other comprehensive income.				

We provide additional information concerning goodwill in Notes 1 and 3 of the Notes to Consolidated Financial Statements in the Annual Report.

VARIABLE INTEREST ENTITIES (VIE)

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

§ the purpose and design of the VIE;

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

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

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

SDG&E

Tolling Agreements

SDG&E has agreements under which it purchases power generated by facilities for which it supplies all of the natural gas to fuel the power plant (i.e., tolling agreements). SDG&E's obligation to absorb natural gas costs may be a significant variable interest. In addition, SDG&E has the power to direct the dispatch of electricity generated by these

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

Otay Mesa VIE

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

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights and does not operate OMEC. In addition to the risks absorbed under the tolling agreement, SDG&E absorbs separately through the put option a significant portion of the risk that the value of Otay Mesa VIE could decline. SDG&E and Sempra Energy have consolidated Otay Mesa VIE since the second quarter of 2007. Otay Mesa VIE's equity of \$72 million at March 31, 2013 and \$76 million at December 31, 2012 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 \$342 million at March 31, 2013, the proceeds of which were used for the construction of OMEC. The loan is with third party lenders and is secured by OMEC's property, plant and equipment. SDG&E is not a party to the loan agreement and does not have any additional implicit or explicit financial responsibility to OMEC LLC. The loan fully matures in April 2019 and bears interest at rates varying with market rates. In addition, OMEC LLC has entered into interest rate swap agreements to moderate its exposure to interest rate changes. We provide additional information concerning the interest rate swaps in Note 7.

Other Variable Interest Entities

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interests exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary. SDG&E has determined that no contracts, other than the one relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary as of March 31, 2013. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. In addition, SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates.

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

The 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 financial statements of other consolidated VIEs are not material to the financial statements of Sempra Energy. The captions on 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 March 31,	
	2013	2012
Operating revenues		
Electric	\$ (1)	\$
Natural gas		
Total operating revenues	(1)	
Operating expenses		
Cost of electric fuel and purchased power	(17)	(19)
Operation and maintenance	17	4
Depreciation and amortization	7	6
Total operating expenses	7	(9)
Operating (loss) income	(8)	9
Interest expense	(3)	(3)
(Loss) income before income taxes/Net (loss) income	(11)	6
Losses (earnings) attributable to noncontrolling interest	11	(6)
Earnings	\$	\$

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

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

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	Three months ended March 31,		Three months ended March 31,		
	2013	2012	2013	2012	
Service cost	\$	27 \$	23 \$	7 \$	8
Interest cost		37	41	11	14
Expected return on assets		(40)	(39)	(15)	(13)
Amortization of:					
Prior service cost (credit)		1	1	(1)	
Actuarial loss		15	12	2	3
Regulatory adjustment		(32)	(30)	2	3
Total net periodic benefit cost	\$	8 \$	8 \$	6 \$	15

NET PERIODIC BENEFIT COST – SDG&E

(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits		
	Three months ended March 31,		Three months ended March 31,		
	2013	2012	2013	2012	
Service cost	\$	8 \$	7 \$	2 \$	2
Interest cost		10	12	2	2
Expected return on assets		(13)	(12)	(2)	(1)
Amortization of:					
Prior service cost				1	1
Actuarial loss		4	4		
Regulatory adjustment		(8)	(10)		
Total net periodic benefit cost	\$	1 \$	1 \$	3 \$	4

NET PERIODIC BENEFIT COST – SOCALGAS

(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits		
	Three months ended March 31,		Three months ended March 31,		
	2013	2012	2013	2012	
Service cost	\$	16 \$	13 \$	4 \$	5
Interest cost		23	25	9	11
Expected return on assets		(25)	(24)	(12)	(11)
Amortization of:					
Prior service cost (credit)		1	1	(2)	(1)
Actuarial loss		9	6	2	3
Regulatory adjustment		(24)	(20)	2	3
Total net periodic benefit cost	\$	\$	1 \$	3 \$	10

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 2013:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
Contributions through March 31, 2013:			

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Pension plans	\$	11	\$	2
Other postretirement benefit plans		7	3	3
Total expected contributions in 2013:				
Pension plans	\$	154	\$	70
Other postretirement benefit plans		26	11	11

RABBI TRUST

In support of its Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including investments in life insurance contracts, in a Rabbi Trust, which trust totaled \$492 million and \$510 million at March 31, 2013 and December 31, 2012, respectively.

EARNINGS PER SHARE

The following table provides the per share computations for our earnings for the three months ended March 31, 2013 and 2012. Basic earnings per common share (EPS) is calculated by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the 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 March 31,	
		2013	2012
Numerator:			
Earnings/Income attributable to common shareholders	\$	178	236
Denominator:			
Weighted-average common shares outstanding for basic EPS		243,294	240,566
Dilutive effect of stock options, restricted stock awards and restricted stock units		4,240	3,195
Weighted-average common shares outstanding for diluted EPS		247,534	243,761
Earnings per share:			
Basic	\$	0.73	0.98
Diluted	\$	0.72	0.97

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 and minus tax shortfalls recognized are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits are tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation excludes options for which the exercise price on common stock was greater than the average market price during the period (out-of-the-money options). We had no such antidilutive stock options outstanding during the three months ended March 31, 2013 and 767,833 such options outstanding during the three months ended March 31, 2012.

We had no stock options outstanding during either the three months ended March 31, 2013 or 2012 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 and minus tax shortfalls recognized related to the awards and units are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits recognized or tax shortfalls recognized are the difference between tax deductions we would receive upon the assumed vesting of RSAs or RSUs and the deferred income taxes we recorded related to the compensation expense on such awards and units. There were 774 antidilutive RSUs from the application of unearned compensation in the treasury stock method for the three months ended March 31, 2013 and no such antidilutive RSUs for the three months ended March 31, 2012. There were 3,090 and 15,932 such antidilutive RSAs for the three months ended March 31, 2013 and 2012, respectively.

Each performance-based RSU represents the right to receive between zero and 1.5 shares of Sempra Energy common stock based on Sempra Energy's four-year cumulative total shareholder return compared to the Standard & Poor's (S&P) 500 Utilities Index, as follows:

Four-Year Cumulative Total Shareholder Return Ranking versus S&P 500 Utilities Index(1)	Number of Sempra Energy Common Shares Received for Each Restricted Stock Unit(2)
75th Percentile or Above	1.5
50th Percentile	1
35th Percentile or Below	

(1) If Sempra Energy ranks at or above the 50th percentile compared to the S&P 500 Index, participants will receive a minimum of 1.0 share for each restricted stock unit.

(2) Participants may also receive additional shares for dividend equivalents on shares subject to restricted stock units, which are reinvested to purchase additional units that become subject to the same vesting conditions as the restricted stock units to which the dividends relate.

RSAs have a maximum potential of 100 percent vesting. We include our performance-based RSUs in potential dilutive shares at zero to 150 percent to the extent that they currently meet the performance requirements for vesting, subject to the application of the treasury stock method. Due to market fluctuations of both Sempra Energy stock and the comparative index, dilutive RSU shares may vary widely from period-to-period. We include our RSAs, which are solely service-based, in potential dilutive shares at 100 percent.

RSUs and RSAs may be excluded from potential dilutive shares by the application of unearned compensation in the treasury stock method, as we discuss above, or because performance goals are currently not met. The maximum excluded RSAs and RSUs, assuming performance goals were met at maximum levels, were 1,659,995 and 3,191,073 for the three months ended March 31, 2013 and 2012, respectively.

SHARE-BASED COMPENSATION

We discuss our share-based compensation plans in Note 9 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 \$5 million for the three months ended March 31, 2013 and 2012, respectively. Pursuant to our share-based compensation plans, we granted 645,502 performance-based RSUs, 103,222 service-based RSUs and 4,617 RSAs during the three months ended March 31, 2013, primarily in January.

CAPITALIZED FINANCING COSTS

Capitalized financing costs include capitalized interest costs and, primarily at the California Utilities, an allowance for funds used during construction (AFUDC) related to both debt and equity financing of construction projects. The following table shows capitalized financing costs for the three months ended March 31, 2013 and 2012.

CAPITALIZED FINANCING COSTS (Dollars in millions)

	Three months ended March 31,	
	2013	2012
Sempra Energy Consolidated:		
AFUDC related to debt	\$ 6	\$ 14
AFUDC related to equity	15	35
Other capitalized financing costs	5	11
Total Sempra Energy Consolidated	\$ 26	\$ 60
SDG&E:		
AFUDC related to debt	\$ 4	\$ 12
AFUDC related to equity	10	29
Total SDG&E	\$ 14	\$ 41
SoCalGas:		
AFUDC related to debt	\$ 2	\$ 2
AFUDC related to equity	5	6
Total SoCalGas	\$ 7	\$ 8

COMPREHENSIVE INCOME

The following tables present the changes in Accumulated Other Comprehensive Income by component and amounts reclassified out of Accumulated Other Comprehensive Income (Loss) to net income, excluding amounts attributable to noncontrolling interests:

CHANGES IN COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (1) (Dollars in millions)

	Foreign					Total
	Currency	Unamortized	Unamortized	Financial		Accumulated
	Translation	Net	Prior Service	Instruments		Other
	Adjustments	Actuarial Loss	Credit			Comprehensive
						Income (Loss)
Sempra Energy Consolidated:						

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Balance as of December 31, 2012	\$	(240)\$	(102)\$	1 \$	(35)\$	(376)
Other comprehensive income (loss) before reclassifications		10			(16)	(6)
Amounts reclassified from accumulated other comprehensive income			3		2	5
Net other comprehensive income (loss)		10	3		(14)	(1)
Balance as of March 31, 2013	\$	(230)	\$ (99)	\$ 1	\$ (49)	\$ (377)

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

RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)

Details about accumulated other comprehensive income components	Three months ended March 31, 2013		Affected line item on Condensed Consolidated Statement of Operations
	Amount reclassified from accumulated other comprehensive income (loss)		
Sempra Energy Consolidated:			
Financial instruments:			
Interest rate instruments	\$ 3		Interest Expense
Interest rate instruments	2		Equity Earnings, Before Income Tax
Total Before Income Tax	5		
Net of Income Tax	(1)		Income Tax Expense
	4		
	(2)		Earnings Attributable to Noncontrolling Interests
	\$ 2		
Amortization of defined benefit pension and postretirement benefits items:			
Actuarial loss	\$ 5	(1)	
	(2)		Income Tax Expense
Net of Income Tax	\$ 3		
SDG&E:			
Financial instruments:			
Interest rate instruments	\$ 2		Interest Expense
	(2)		Earnings Attributable to Noncontrolling Interest
	\$		

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

For the three months ended March 31, 2013, Other Comprehensive Income, excluding amounts attributable to noncontrolling interests, at SDG&E and SoCalGas was negligible and reclassifications out of Accumulated Other Comprehensive Income (Loss) to Net Income were negligible as well for SoCalGas.

The amounts for comprehensive income in the Condensed Consolidated Statements of Comprehensive Income are net of income tax expense (benefit) as follows:

INCOME TAX EXPENSE (BENEFIT) ASSOCIATED WITH OTHER COMPREHENSIVE INCOME
(Dollars in millions)

	Three months ended March 31,					
	2013			2012		
	Sempra Energy Share- holders' Equity	Non- controlling Interests	Total Equity	Sempra Energy Share- holders' Equity	Non- controlling Interests	Total Equity
Sempra Energy Consolidated:						
Other comprehensive income before reclassifications:						
Financial instruments	\$ (7)	\$	\$ (7)	\$ 2	\$	\$ 2
Amounts reclassified from accumulated other comprehensive income:						
Pension and other postretirement benefits	\$ 2	\$	\$ 2	\$ 1	\$	\$ 1
Financial instruments	1		1	1		1

Income tax amounts associated with other comprehensive income during the three months ended March 31, 2013 and 2012 at SDG&E and SoCalGas were negligible.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

The following two tables provide a reconciliation of Sempra Energy's and SDG&E's shareholders' equity and noncontrolling interests for the three months ended March 31, 2013 and 2012.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS
(Dollars in millions)

	Sempra Energy Shareholders' Equity	Non- controlling Interests	Total Equity
Balance at December 31, 2012	\$ 10,282	\$ 401	\$ 10,683
Comprehensive income (loss)	179	(3)	176
Preferred dividends of subsidiaries	(2)		(2)
Share-based compensation expense	10		10
Common stock dividends declared	(153)		(153)
Issuance of common stock	15		15
Repurchase of common stock	(45)		(45)

Tax benefit related to share-based compensation		2		2
Sale of noncontrolling interests, net of offering costs		135	439	574
Equity contributed by noncontrolling interest			4	4
Distributions to noncontrolling interests			(3)	(3)
Balance at March 31, 2013	\$	10,423 \$	838 \$	11,261
Balance at December 31, 2011	\$	9,775 \$	403 \$	10,178
Comprehensive income		309	17	326
Preferred dividends of subsidiaries		(2)		(2)
Share-based compensation expense		11		11
Common stock dividends declared		(144)		(144)
Issuance of common stock		13		13
Repurchase of common stock		(16)		(16)
Common stock released from ESOP		6		6
Distributions to noncontrolling interests			(2)	(2)
Balance at March 31, 2012	\$	9,952 \$	418 \$	10,370

SHAREHOLDER'S EQUITY AND NONCONTROLLING INTEREST (Dollars in millions)

		SDG&E Shareholder's Equity	Non- controlling Interest	Total Equity
Balance at December 31, 2012	\$	4,222 \$	76 \$	4,298
Comprehensive income (loss)		92	(8)	84
Preferred stock dividends declared		(1)		(1)
Equity contributed by noncontrolling interest			4	4
Balance at March 31, 2013	\$	4,313 \$	72 \$	4,385
Balance at December 31, 2011	\$	3,739 \$	102 \$	3,841
Comprehensive income		106	6	112
Preferred stock dividends declared		(1)		(1)
Balance at March 31, 2012	\$	3,844 \$	108 \$	3,952

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. Net income or loss attributable to the noncontrolling interests is separately identified on the Condensed Consolidated Statements of Operations, and comprehensive income or loss attributable to the noncontrolling interests is separately identified on the Condensed Consolidated Statements of Comprehensive Income.

Sale of Noncontrolling Interests

On March 21, 2013, Sempra Energy's subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova) priced a private offering and a concurrent initial public offering in Mexico of new shares of Class II, Single Series common stock at \$2.75 per share in U.S. dollars or 34.00 Mexican pesos. The initial purchasers in the private offering and the underwriters in the Mexican public offering were granted a 30-day option to purchase additional common shares at the initial offering price, less the underwriting discount, to cover overallocments. These options were exercised before the settlement date of the offerings, which was March 27, 2013. After the initial offerings and the exercise of the overallocment options, the aggregate shares of common stock sold in the offerings totaled 218,110,500 shares of common stock, representing approximately 18.9 percent of IEnova's outstanding ownership interest.

The net proceeds of the offerings, including the additional option shares, were approximately \$574 million in U.S. dollars or 7.1 billion Mexican pesos. IEnova expects to use the net proceeds of the offerings primarily for general corporate purposes, and for the funding of its current investments and ongoing expansion plans. All U.S. dollar equivalents presented here were based on an exchange rate of 12.3841 Mexican pesos to 1.00 U.S. dollar as of March 21, 2013, the pricing date for the offerings. Net proceeds are after reduction for underwriting discounts and commissions and offering expenses. Following completion of the initial offerings and overallocment options, we beneficially owned 81.1 percent of IEnova and its subsidiaries. Consistent with applicable accounting guidance, changes in noncontrolling interests that do not result in a change of control are accounted for as equity transactions. When there are changes in noncontrolling interests of a subsidiary that do not result in a change of control, any difference between carrying value and fair value related to the change in ownership is recorded as an adjustment to shareholders' equity. As a result of the offerings and overallocment options, we recorded an increase in Sempra Energy's shareholders' equity of \$135 million for the sale of IEnova shares to noncontrolling interests.

IEnova is a separate legal entity, formerly known as Sempra México, S.A. de C.V., comprised primarily of Sempra Energy's operations in Mexico. IEnova is included within our Sempra Mexico reportable segment, but is not the same in its entirety as the reportable segment. In addition to the IEnova operating companies, the Sempra Mexico segment includes, among other things, certain holding companies and risk management activity. Also, IEnova's financial results are reported in Mexico under IFRS, as required by the Mexican Stock Exchange (the Bolsa Mexicana de Valores, S.A.B. de C.V.) where the new shares are now traded under the symbol IENOVA.

The private offering was exempt from registration under the U.S. Securities Act of 1933, as amended (the Securities Act), and shares in the private offering were offered and sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to persons outside of the United States, in accordance with Regulation S under the Securities Act. The shares were not registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable securities laws.

Preferred Stock

The preferred stock of SoCalGas is presented at Sempra Energy as a noncontrolling interest at March 31, 2013 and December 31, 2012. The preferred stock of SDG&E is contingently redeemable preferred stock. At Sempra Energy, the preferred stock dividends of both SDG&E and SoCalGas are charges against income related to noncontrolling interests. We provide additional information concerning preferred stock in Note 12 of the Notes to Consolidated Financial Statements in the Annual Report.

At March 31, 2013 and December 31, 2012, we reported the following other 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		March 31, 2013	December 31, 2012
SDG&E:				
Otay Mesa VIE (at SDG&E)	100 %	\$	72	\$ 76
Sempra South American Utilities:				
Chilquinta Energía subsidiaries	24.4 – 43.4		30	29
Luz del Sur	20.2		237	236
Tecsur	9.8		4	4
Sempra Mexico:				
IEnova, S.A.B. de C.V.	18.9		439	
Sempra Natural Gas:				
Bay Gas Storage, Ltd.	9.1		20	20
Liberty Gas Storage, LLC	25.0		15	15
Southern Gas Transmission Company	49.0		1	1
Total Sempra Energy		\$	818	\$ 381

TRANSACTIONS WITH AFFILIATES

Loans to Unconsolidated Affiliates

Sempra South American Utilities has a U.S. dollar-denominated loan to Camuzzi Gas del Sur S.A., an affiliate of the segment's Argentine investments, which we discuss in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report. At March 31, 2013, the loan has an \$18 million principal balance outstanding plus \$7 million of accumulated interest, which accrues at a variable interest rate (7.28 percent as of March 31, 2013). In June 2012, the maturity date of the loan was extended from June 30, 2012 to June 30, 2013. The loan was fully reserved at March 31, 2013 and December 31, 2012.

Other Affiliate Transactions

Sempra Energy, SDG&E and SoCalGas provide certain services to each other and are charged an allocable share of the cost of such services. Amounts due to/from affiliates are as follows:

AMOUNTS DUE TO AND FROM AFFILIATES AT SDG&E AND SOCALGAS

(Dollars in millions)

		March 31, 2013	December 31, 2012
SDG&E			
Current:			
Due from SoCalGas	\$		\$ 37
Due from various affiliates		1	2
	\$	1	\$ 39
			35

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Due to Sempra Energy	\$	24	\$	19
Due to SoCalGas		11		
	\$	35	\$	19
Income taxes due (to) from Sempra Energy(1)	\$	(7)	\$	12
SoCalGas				
Current:				
Due from Sempra Energy	\$	265	\$	24
Due from SDG&E		11		
	\$	276	\$	24
Due to SDG&E	\$		\$	37
Income taxes due from Sempra Energy(1)	\$	93	\$	99

(1) SDG&E and SoCalGas are included in the consolidated income tax return of Sempra Energy and are allocated income tax expense from Sempra Energy in an amount equal to that which would result from the companies' having always filed a separate return.

Revenues from unconsolidated affiliates at SDG&E and SoCalGas are as follows:

REVENUES FROM UNCONSOLIDATED AFFILIATES AT SDG&E AND SOCIALGAS
(Dollars in millions)

		Three months ended March 31,		
		2013	2012	
SDG&E	\$	2	\$	2
SoCalGas		15		15

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 March 31,		
		2013	2012	
Sempra Energy Consolidated:				
Allowance for equity funds used during construction	\$	15	\$	35
Investment gains(1)		10		19
Gains on interest rate and foreign exchange instruments, net		7		11
Regulatory interest, net(2)		1		1
Sundry, net		4		9
Total	\$	37	\$	75

SDG&E:

Allowance for equity funds used during construction	\$	10 \$	29
Regulatory interest, net(2)		1	1
Total	\$	11 \$	30

SoCalGas:

Allowance for equity funds used during construction	\$	5 \$	6
Sundry, net		(1)	(2)
Total	\$	4 \$	4

- (1) Represents investment gains on dedicated assets in support of our executive retirement and deferred compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans.
- (2) Interest on regulatory balancing accounts.

INCOME TAXES

INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES

(Dollars in millions)

	Three months ended March 31,			
	2013		2012	
	Income Tax Expense	Effective Tax Rate	Income Tax Expense	Effective Tax Rate
Sempra Energy Consolidated	\$ 178	51 %	\$ 117	33 %
SDG&E	51	39	60	35
SoCalGas	24	34	40	38

Changes in Effective Income Tax Rates

Sempra Energy Consolidated

The higher effective income tax rate in the three months ended March 31, 2013 was primarily due to:

§ \$63 million income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings, which we discuss above in "Sale of Noncontrolling Interests;" offset by

§ lower income tax expense due to Mexican currency translation and inflation adjustments; and

§ income tax benefit in 2013 resulting from changes made in the second half of 2012 in the income tax treatment of certain repairs expenditures that are capitalized for financial statement purposes. The change in income tax treatment of certain repairs expenditures for electric transmission and distribution assets was made pursuant to an Internal Revenue Service (IRS) Revenue Procedure providing a safe harbor for deducting certain repairs expenditures from taxable income when incurred for tax years beginning on or after January 1, 2011. The change in income tax treatment of certain repairs expenditures for gas plant assets was made pursuant to an IRS Revenue Procedure which allows, under an Internal Revenue Code (IRC) section, for such expenditures to be deducted from taxable income when incurred.

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 are factored into the forecasted effective tax rate and their impact is spread proportionately over the year. The forecasted items, anticipated on a full year basis, may include, among others, self-developed software expenditures, repairs to certain utility plant fixed assets, renewable energy income tax credits, deferred income tax benefits related to renewable energy projects, exclusions from taxable income of the equity portion of AFUDC, and depreciation on a certain portion of utility plant assets. Items that cannot be reliably forecasted (e.g., adjustments related to prior years' income tax items, Mexican currency translation and inflation adjustments, deferred income tax benefit associated with the impairment of a book investment, etc.) are recorded in the interim period in which they actually occur, which can result in variability to income tax expense.

SDG&E

The higher effective income tax rate in the three months ended March 31, 2013 was primarily due to:

§ the impact of Otay Mesa VIE, which we discuss below; and

§ lower exclusions from taxable income of the equity portion of AFUDC; offset by

§ income tax benefit in 2013 resulting from a change made in the third quarter of 2012 in the income tax treatment of certain repairs expenditures for electric transmission and distribution assets that are capitalized for financial statement purposes, as we discuss above for Sempra Energy Consolidated.

The results for Sempra Energy Consolidated and SDG&E include Otay Mesa VIE, which is not included in Sempra Energy's federal or state income tax returns but is consolidated for financial statement purposes, and therefore, Sempra Energy Consolidated's and SDG&E's effective income tax rates are impacted by the VIE's stand-alone effective income tax rate. In the first quarter of 2013, Otay Mesa VIE had a pretax loss compared to pretax income in 2012, on which no tax benefit or expense, respectively, was recorded by Otay Mesa VIE. We discuss Otay Mesa VIE above in "Variable Interest Entities."

SoCalGas

The lower effective income tax rate in the three months ended March 31, 2013 was primarily due to:

§ income tax benefit in 2013 resulting from a change made in the fourth quarter of 2012 in the income tax treatment of certain repairs expenditures for gas assets that are capitalized for financial statement purposes, as we discuss above for Sempra Energy Consolidated; offset by

§ higher book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets; and

§ lower deductions for self-developed software costs.

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

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

§ the equity portion of AFUDC

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

§ self-developed software expenditures

§ depreciation on a certain portion of utility plant fixed assets

We provide additional information about our accounting for income taxes in Notes 1 and 7 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 6. DEBT AND CREDIT FACILITIES

COMMITTED LINES OF CREDIT

At March 31, 2013, Sempra Energy Consolidated had an aggregate of \$4.1 billion in committed lines of credit to provide liquidity and to support commercial paper, the major components of which we detail below. Available unused credit on these lines at March 31, 2013 was \$3.3 billion.

Sempra Energy

Sempra Energy has a \$1.067 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. serves as administrative agent for the syndicate of 24 lenders. No single lender has greater than a 7-percent share.

Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At March 31, 2013, Sempra Energy was in compliance with this and all other financial covenants under the credit facility. The facility also provides for issuance of up to \$635 million of letters of credit on behalf of Sempra Energy with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

At March 31, 2013, Sempra Energy had \$34 million of letters of credit outstanding supported by the facility.

Sempra Global

Sempra Global has a \$2.189 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. serves as administrative agent for the syndicate of 25 lenders. No single lender has greater than a 7-percent share.

Sempra Energy guarantees Sempra Global's obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter.

At March 31, 2013, Sempra Global had \$747 million of commercial paper outstanding supported by the facility. At December 31, 2012, \$300 million of commercial paper outstanding was classified as long-term debt based on management's intent and ability to maintain this level of borrowing on a long-term basis either supported by this credit facility or by issuing long-term debt. This classification has no impact on cash flows. As a result of issuances of long-term debt in the three months ended March 31, 2013, as we discuss below, none of the commercial paper outstanding at March 31, 2013 is classified as long-term debt.

California Utilities

SDG&E and SoCalGas have a combined \$877 million, five-year syndicated revolving credit agreement expiring in March 2017. JPMorgan Chase Bank, N.A. serves as administrative agent for the syndicate of 24 lenders. No single lender has greater than a 7-percent share. The agreement permits each utility to individually borrow up to \$658 million, subject to a combined limit of \$877 million for both utilities. It also provides for the issuance of letters of credit on behalf of each utility subject to a combined letter of credit commitment of \$200 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit.

Borrowings under the facility bear interest at benchmark rates plus a margin that varies with market index rates and the borrowing utility's credit ratings. The agreement requires each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At March 31, 2013, 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 March 31, 2013, SDG&E and SoCalGas had no outstanding borrowings supported by the facility. Available unused credit on the line at March 31, 2013 was \$658 million at both SDG&E and SoCalGas, subject to the combined limit on the facility of \$877 million.

GUARANTEES

RBS Sempra Commodities

As we discuss in Note 4, in 2010 and early 2011, Sempra Energy, RBS and RBS Sempra Commodities sold substantially all of the businesses and assets within the partnership in four separate transactions. In connection with each of these transactions, the buyers were, subject to certain qualifications, obligated to replace any guarantees that we had issued in connection with the applicable businesses sold with guarantees of their own. The buyers have substantially completed this process with regard to all existing, open positions, except for one remaining position expected to terminate by January 2014. For those guarantees which have not been replaced, the buyers are obligated to indemnify us in accordance with the applicable transaction documents for any claims or losses in connection with the guarantees that we issued associated with the businesses sold. We provide additional information in Note 4.

At March 31, 2013, RBS Sempra Commodities no longer requires significant working capital support. However, we have provided back-up guarantees for a portion of RBS Sempra Commodities' remaining trading obligations. A few of these back-up guarantees may continue for a prolonged period of time. RBS has fully indemnified us for any claims or losses in connection with these arrangements, with the exception of those obligations for which JP Morgan has agreed to indemnify us. We discuss the indemnification release in Note 4. We discuss additional matters related to our investment in RBS Sempra Commodities in Note 10.

Other Guarantees

Sempra Renewables and BP Wind Energy currently hold 50-percent interests in the Flat Ridge 2 Wind Farm. The project obtained construction financing in December 2012, and proceeds from the loans were used to return \$148 million of each owner's joint venture investment in 2012. After completion of the project in March 2013, the construction financing was converted into permanent financing consisting of a term loan and a fixed-rate note. The term loan of \$242 million expires in June 2023 and the fixed-rate note of \$110 million expires in June 2035. The financing agreement requires Sempra Renewables and BP Wind Energy, severally for each partner's 50-percent interest, to return cash to the project in the event that the project does not meet certain cash flow criteria or in the event that the project's debt service, operation and maintenance and firm transmission and production tax credits reserve accounts are not maintained at specific thresholds. Sempra Renewables recorded a liability of \$3 million in the first quarter of 2013 for the fair value of its obligations associated with the cash flow requirements, which constitutes a guarantee. The liability is being amortized over its expected life. The outstanding loans are not guaranteed by the partners.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt outstanding at Sempra Energy were 0.64 percent and 0.72 percent at March 31, 2013 and December 31, 2012, respectively. The weighted average interest rates at Sempra Energy at December 31, 2012 include interest rates for commercial paper borrowings classified as long-term, as we discuss above.

LONG-TERM DEBT

Sempra Mexico

On February 14, 2013, IEnova publicly offered and sold in Mexico \$306 million (U.S. dollar equivalent) of 6.3-percent notes maturing in 2023 with a U.S. dollar equivalent rate of 4.12 percent after entering into a cross-currency swap for U.S. dollars at the time of issuance. IEnova also publicly offered and sold in Mexico \$102 million (U.S. dollar equivalent) of variable rate notes, maturing in 2018, which after a floating-to-fixed cross-currency swap for U.S. dollars at the time of issuance, carry a U.S. dollar equivalent rate of 2.66 percent. The notes and related interest are denominated in Mexican pesos, and the interest rate for the variable rate notes is based on the Interbank Equilibrium Interest Rate plus 30 basis points. IEnova used \$357 million of the proceeds of the notes for the repayment of intercompany debt, including accrued interest, primarily to other Sempra Energy consolidated foreign entities.

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

We record all derivatives at fair value on the 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 (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.

In certain cases, we apply the normal purchase or sale exception to derivative accounting and have other commodity contracts that are not derivatives. These contracts are not recorded at fair value and are therefore excluded from the disclosures below.

HEDGE ACCOUNTING

We may designate a derivative as a cash flow hedging instrument if it effectively converts anticipated revenues or expenses to a fixed dollar amount. We may utilize cash flow hedge accounting for derivative commodity instruments, foreign currency instruments and interest rate instruments. Designating cash flow hedges is dependent on the business context in which the instrument is being used, the effectiveness of the instrument in offsetting the risk that a given future revenue or expense item may vary, and other criteria.

We may designate an interest rate derivative as a fair value hedging instrument if it effectively converts our own debt from a fixed interest rate to a variable rate. The combination of the derivative and debt instruments results in fixing that portion of the fair value of the debt that is related to benchmark interest rates. Designating fair value hedges is dependent on the instrument being used, the effectiveness of the instrument in offsetting changes in the fair value of our debt instruments, and other criteria.

ENERGY DERIVATIVES

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

§ The California Utilities use natural gas energy derivatives, on their customers' behalf, with the objective of managing price risk and basis risks, and lowering natural gas costs. These derivatives include fixed price natural gas positions, options, and basis risk instruments, which are either exchange-traded or over-the-counter financial instruments. This activity is governed by risk management and transacting activity plans that have been filed with and approved by the CPUC. Natural gas derivative activities are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Net commodity cost impacts on the 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 are recorded in Cost of Electric Fuel and Purchased Power, which is recoverable in rates, on the Condensed Consolidated Statements of Operations.
- § Sempra Mexico and Sempra Natural Gas may use natural gas and electricity derivatives, as appropriate, to optimize the earnings of their assets which support the following businesses: liquefied natural gas (LNG), natural gas transportation, power generation, and Sempra Natural Gas' storage. Gains and losses associated with undesignated derivatives are recognized in Energy-Related Businesses Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the 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 as of March 31, 2013 and December 31, 2012 as follows:

NET ENERGY DERIVATIVE VOLUMES

Segment and Commodity	March 31, 2013	December 31, 2012
California Utilities:		
SDG&E:		
Natural gas	25 million MMBtu	25 million MMBtu(1)
Congestion revenue rights	26 million MWh	30 million MWh(2)
SoCalGas - natural gas	2 million MMBtu	
Energy-Related Businesses:		
Sempra Natural Gas:		
Electric power	2 million MWh	1 million MWh
Natural gas	27 million MMBtu	36 million MMBtu
Sempra Mexico - natural gas	1 million MMBtu	1 million MMBtu
(1)	Million British thermal units	
(2)	Megawatt hours	

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

INTEREST RATE DERIVATIVES

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

Interest rate derivatives are utilized by the California Utilities as well as by other Sempra Energy subsidiaries. Although the California Utilities generally recover borrowing costs in rates over time, the use of interest rate derivatives is subject to certain regulatory constraints, and the impact of interest rate derivatives may not be recovered from customers as timely as described above with regard to natural gas derivatives. Accordingly, interest rate derivatives are generally accounted for as hedges at the California Utilities, as well as at the rest of Sempra Energy's subsidiaries. Separately, Otay Mesa VIE has entered into interest rate swap agreements to moderate its exposure to interest rate changes. This activity was designated as a cash flow hedge as of April 1, 2011.

The net notional amounts of our interest rate derivatives, excluding the cross-currency swaps discussed below, as of March 31, 2013 and December 31, 2012 were:

INTEREST RATE DERIVATIVES

(Dollars in millions)

	March 31, 2013		December 31, 2012	
	Notional Debt	Maturities	Notional Debt	Maturities
Sempra Energy Consolidated				
Cash flow hedges(1)	\$ 436	2013-2028	\$ 439	2013-2028
Fair value hedges	500	2013-2016	500	2013-2016
SDG&E				
Cash flow hedge(1)	342	2019	345	2019

(1) Includes Otay Mesa VIE. All of SDG&E's interest rate derivatives relate to Otay Mesa VIE.

FOREIGN CURRENCY DERIVATIVES

We are exposed to exchange rate movements at our Mexican subsidiaries, which have U.S. dollar denominated cash balances, receivables and payables (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. These subsidiaries also have deferred income tax assets and liabilities that are denominated in the Mexican peso, which must be translated into U.S. dollars for financial reporting purposes. From time to time, we may utilize short-term foreign currency derivatives at our subsidiaries and at the consolidated level as a means to manage the risk of exposure to significant fluctuations in our income tax expense from these impacts. We may also utilize cross-currency swaps to hedge exposure related to Mexican peso-denominated debt at our Mexican subsidiaries. On February 14, 2013, Sempra Mexico entered into cross-currency swap agreements, which were designated as cash flow hedges. We discuss the notional amount of the cross-currency swaps in Note 6.

FINANCIAL STATEMENT PRESENTATION

Each Condensed Consolidated Balance Sheet reflects the offsetting of net derivative positions and cash collateral with the same counterparty when management believes a legal right of offset exists. The following tables provide the fair values of derivative instruments on the Condensed Consolidated Balance Sheets as of March 31, 2013 and December

31, 2012, including the amount of cash collateral receivables that were not offset, as the cash collateral is in excess of liability positions.

DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	March 31, 2013			
	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate and foreign exchange instruments(3)	\$ 7	\$ 13	\$ (19)	\$ (76)
Derivatives not designated as hedging instruments:				
Interest rate and foreign exchange instruments	8	37	(7)	(32)
Commodity contracts not subject to rate recovery:	76	15	(104)	(18)
Associated offsetting commodity contracts	(71)	(13)	71	13
Associated offsetting cash collateral			18	1
Commodity contracts subject to rate recovery:	30	34	(20)	(1)
Associated offsetting commodity contracts	(6)		6	
Associated offsetting cash collateral			11	1
Net amounts presented on the balance sheet	44	86	(44)	(112)
Additional margin posted for commodity contracts not subject to rate recovery	20			
Additional margin posted for commodity contracts subject to rate recovery	24			
Total	\$ 88	\$ 86	\$ (44)	\$ (112)
SDG&E:				
Derivatives designated as hedging instruments:				

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Interest rate instruments(3)	\$		\$		\$	(17)	\$	(58)
Derivatives not designated as hedging instruments:								
Commodity contracts subject to rate recovery:		27		34		(18)		(1)
Associated offsetting commodity contracts		(5)				5		
Associated offsetting cash collateral						10		1
Net amounts presented on the balance sheet		22		34		(20)		(58)
Additional margin posted for commodity contracts not subject to rate recovery(4)		1						
Additional margin posted for commodity contracts subject to rate recovery		22						
Total	\$	45	\$	34	\$	(20)	\$	(58)
SoCalGas:								
Derivatives not designated as hedging instruments:								
Commodity contracts subject to rate recovery:	\$	3	\$		\$	(2)	\$	
Associated offsetting commodity contracts		(1)				1		
Associated offsetting cash collateral						1		
Net amounts presented on the balance sheet		2						
Additional margin posted for commodity contracts not subject to rate recovery(4)		2						
Additional margin posted for commodity contracts subject to rate recovery		2						
Total	\$	6	\$		\$		\$	
(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)		Includes cash collateral not offset related to a negligible amount of commodity contracts not subject to rate recovery.						

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

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December 31, 2012

	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	\$ 7	\$ 12	\$ (19)	\$ (64)
Commodity contracts not subject to rate recovery	1			
Derivatives not designated as hedging instruments:				
Interest rate instruments	8	40	(8)	(35)
Commodity contracts not subject to rate recovery:	117	15	(116)	(27)
Associated offsetting commodity contracts	(102)	(12)	102	12
Associated offsetting cash collateral			4	7
Commodity contracts subject to rate recovery:	30	35	(35)	(1)
Associated offsetting commodity contracts	(4)		4	
Associated offsetting cash collateral			22	1
Net amounts presented on the balance sheet	57	90	(46)	(107)
Additional margin posted for commodity contracts not subject to rate recovery	22			
Additional margin posted for commodity contracts subject to rate recovery	13			
Total	\$ 92	\$ 90	\$ (46)	\$ (107)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	\$	\$	\$ (17)	\$ (64)
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery:	28	35	(33)	(1)
Associated offsetting commodity contracts	(3)		3	
Associated offsetting cash collateral			22	1

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Net amounts presented on the balance sheet	25	35	(25)	(64)
Additional margin posted for commodity contracts not subject to rate recovery(4)	1			
Additional margin posted for commodity contracts subject to rate recovery	12			
Total	\$ 38	\$ 35	\$ (25)	\$ (64)
SoCalGas:				
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery:	\$ 2	\$	\$ (2)	\$
Associated offsetting commodity contracts	(1)		1	
Net amounts presented on the balance sheet	1		(1)	
Additional margin posted for commodity contracts not subject to rate recovery(4)	2			
Additional margin posted for commodity contracts subject to rate recovery	1			
Total	\$ 4	\$	\$ (1)	\$
(1)	Included in Current Assets: Other for SoCalGas.			
(2)	Included in Current Liabilities: Other for SoCalGas.			
(3)	Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.			
(4)	Includes cash collateral not offset related to a negligible amount of commodity contracts not subject to rate recovery.			

The effects of derivative instruments designated as hedges on the Condensed Consolidated Statements of Operations and on Other Comprehensive Income (OCI) and Accumulated Other Comprehensive Income (AOCI) for the three months ended March 31 were:

FAIR VALUE HEDGE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

	Location	Gain on derivatives recognized in earnings Three months ended March 31,	
		2013	2012
Sempra Energy Consolidated:			
Interest rate instruments	Interest Expense	\$ 2	\$ 2
Interest rate instruments			2

	Other Income, Net		2		4
Total(1)		\$		\$	
(1)	There has been no hedge ineffectiveness on these swaps. Changes in the fair values of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt.				

CASH FLOW HEDGE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

	Pretax gain (loss) recognized in OCI (effective portion) Three months ended March 31,		Location	Gain (loss) reclassified from AOCI into earnings (effective portion) Three months ended March 31,	
	2013	2012		2013	2012
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments(1)	\$ (28)	\$ 3	Interest Expense Equity Earnings, Before Income Tax	\$ (3)	\$ (1)
Interest rate instruments	1	1		(2)	(2)
Total	\$ (27)	\$ 4		\$ (5)	\$ (3)
SDG&E:					
Interest rate instruments(1)	\$ 1	\$	Interest Expense	\$ (2)	\$
SoCalGas:					
Interest rate instruments	\$	\$	Interest Expense	\$	\$ (1)

(1) Amounts include Otay Mesa VIE. All of SDG&E's interest rate derivative activity relates to Otay Mesa VIE. There has been a negligible amount of ineffectiveness related to these swaps.

Sempra Energy Consolidated expects that losses of \$21 million, which are net of income tax benefit, that are currently recorded in AOCI (including \$10 million in noncontrolling interests) related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings. Actual amounts ultimately reclassified into earnings depend on the interest rates in effect when derivative contracts that are currently outstanding mature. The Sempra Energy Consolidated amount includes \$9 million at SDG&E in noncontrolling interest related to Otay Mesa VIE.

SoCalGas expects that losses of \$1 million, which are net of income tax benefit, that are currently recorded in AOCI related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings.

For all forecasted transactions, the maximum term over which we are hedging exposure to the variability of cash flows at March 31, 2013 is approximately 16 years and 6 years for Sempra Energy and SDG&E, respectively. The maximum term of hedged interest rate variability related to debt at Sempra Renewables' equity method investees is 18 years.

We recorded negligible hedge ineffectiveness in the three-month periods ended March 31, 2013 and 2012.

The effects of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statements of Operations for the three months ended March 31 were:

UNDESIGNATED DERIVATIVE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

	Location	Gain (loss) on derivatives recognized in earnings	
		Three months ended March 31, 2013	2012
Sempra Energy Consolidated:			
Interest rate and foreign exchange instruments	Other Income, Net Revenues:	\$ 7	\$ 11
Commodity contracts not subject to rate recovery	Energy-Related Businesses	(20)	11
Commodity contracts not subject to rate recovery	Operation and Maintenance		1
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	9	(21)
Total		\$ (4)	\$ 2
SDG&E:			
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	\$ 9	\$ (21)
SoCalGas:			
Commodity contracts not subject to rate recovery	Operation and Maintenance	\$	\$ 1

CONTINGENT FEATURES

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

For Sempra Energy, the total fair value of this group of derivative instruments in a net liability position at March 31, 2013 and December 31, 2012 is \$6 million and \$8 million, respectively. As of March 31, 2013, if the credit ratings of Sempra Energy were reduced below investment grade, \$6 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 March 31, 2013 and December 31, 2012 is \$2 million and \$6 million, respectively. As of March 31, 2013, if the credit ratings of SDG&E were reduced below investment grade, \$2 million of additional assets could be required to be posted as

collateral for these derivative contracts.

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

NOTE 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 inputs we use to measure fair value during the three months ended March 31, 2013.

Recurring Fair Value Measures

The three tables below, by level within the fair value hierarchy, set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2013 and December 31, 2012. We classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

The fair value of commodity derivative assets and liabilities is presented in accordance with our netting policy, as we discuss in Note 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 as of March 31, 2013 and December 31, 2012 in the tables below include the following:

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

§ We enter into commodity contracts and interest rate derivatives primarily as a means to manage price exposures. We primarily use a market approach with market participant assumptions to value these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable. We have exchange-traded derivatives that are valued based on quoted prices in active markets for the identical instruments (Level 1). We also may have other commodity derivatives that are valued using industry standard models that consider quoted forward

prices for commodities, time value, current market and contractual prices for the underlying instruments, volatility factors, and other relevant economic measures (Level 2). All Level 3 recurring items are related to CRRs at SDG&E, as we discuss below under “Level 3 Information.” We record commodity derivative contracts that are subject to rate recovery as commodity costs that are offset by regulatory account balances and are recovered in rates.

§ Investments include marketable securities that we value using a market approach based on closing prices reported in the active market in which the identical security is traded (Level 1).

There were no transfers into or out of Level 1, Level 2 or Level 3 for Sempra Energy Consolidated, SDG&E or SoCalGas during the periods presented, nor any changes in valuation techniques used in recurring fair value measurements.

RECURRING FAIR VALUE MEASURES – SEMPRAS ENERGY CONSOLIDATED (Dollars in millions)

	At fair value as of March 31, 2013				
	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$ 569	\$	\$	\$	\$ 569
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies					
	106	71			177
Municipal bonds		64			64
Other securities		134			134
Total debt securities	106	269			375
Total nuclear decommissioning trusts(1)	675	269			944
Interest rate instruments		65			65
Commodity contracts subject to rate recovery					
	22	2	58		82
Commodity contracts not subject to rate recovery					
	15	12			27
Total	\$ 712	\$ 348	\$ 58	\$	\$ 1,118
Liabilities:					
Interest rate and foreign exchange instruments					
	\$	\$ 134	\$	\$	\$ 134
Commodity contracts subject to rate recovery					
	12	3		(12)	3
Commodity contracts not subject to rate recovery					
	15	23		(19)	19
Total	\$ 27	\$ 160	\$	\$ (31)	\$ 156

At fair value as of December 31, 2012
Collateral

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	Level 1	Level 2	Level 3	netted	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$ 539	\$	\$	\$	\$ 539
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies					
	87	69			156
Municipal bonds		63			63
Other securities		130			130
Total debt securities	87	262			349
Total nuclear decommissioning trusts(1)	626	262			888
Interest rate instruments		68			68
Commodity contracts subject to rate recovery					
	13		61		74
Commodity contracts not subject to rate recovery					
	28	15			43
Investments	1				1
Total	\$ 668	\$ 345	\$ 61	\$	\$ 1,074
Liabilities:					
Interest rate instruments					
	\$	\$ 126	\$	\$	\$ 126
Commodity contracts subject to rate recovery					
	23	9		(23)	9
Commodity contracts not subject to rate recovery					
	6	23		(11)	18
Total	\$ 29	\$ 158	\$	\$ (34)	\$ 153

(1) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES – SDG&E
(Dollars in millions)

	At fair value as of March 31, 2013				
	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$ 569	\$	\$	\$	\$ 569
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies					
	106	71			177
Municipal bonds		64			64
Other securities		134			134
Total debt securities	106	269			375
Total nuclear decommissioning trusts(1)	675	269			944

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Commodity contracts subject to rate recovery	20		58		78
Commodity contracts not subject to rate recovery	1				1
Total	\$ 696	\$ 269	\$ 58	\$	\$ 1,023
Liabilities:					
Interest rate instruments	\$	\$ 75	\$	\$	\$ 75
Commodity contracts subject to rate recovery	11	3		(11)	3
Total	\$ 11	\$ 78	\$	\$ (11)	\$ 78

At fair value as of December 31, 2012

	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$ 539	\$	\$	\$	\$ 539
Debt securities:					
Debt securities issued by the U.S. Treasury and other					
U.S. government corporations and agencies	87	69			156
Municipal bonds		63			63
Other securities		130			130
Total debt securities	87	262			349
Total nuclear decommissioning trusts(1)	626	262			888
Commodity contracts subject to rate recovery	12		61		73
Commodity contracts not subject to rate recovery	1				1
Total	\$ 639	\$ 262	\$ 61	\$	\$ 962
Liabilities:					
Interest rate instruments	\$	\$ 81	\$	\$	\$ 81
Commodity contracts subject to rate recovery	23	8		(23)	8
Total	\$ 23	\$ 89	\$	\$ (23)	\$ 89

(1) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES – SOCALGAS
(Dollars in millions)

At fair value as of March 31, 2013

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	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Commodity contracts subject to rate recovery	\$ 2	\$ 2	\$	\$	\$ 4
Commodity contracts not subject to rate recovery	2				2
Total	\$ 4	\$ 2	\$	\$	\$ 6
Liabilities:					
Commodity contracts subject to rate recovery	\$ 1	\$	\$	\$ (1)	\$
Total	\$ 1	\$	\$	\$ (1)	\$

At fair value as of December 31, 2012

	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Commodity contracts subject to rate recovery	\$ 1	\$	\$	\$	\$ 1
Commodity contracts not subject to rate recovery	3				3
Total	\$ 4	\$	\$	\$	\$ 4
Liabilities:					
Commodity contracts subject to rate recovery	\$	\$ 1	\$	\$	\$ 1
Total	\$	\$ 1	\$	\$	\$ 1

Level 3 Information

The following table sets forth reconciliations of changes in the fair value of CRRs classified as Level 3 in the fair value hierarchy for Sempra Energy Consolidated and SDG&E:

LEVEL 3 RECONCILIATIONS

(Dollars in millions)

	Three months ended March 31,	
	2013	2012
Balance as of January 1	\$ 61	\$ 23
Realized and unrealized (losses) gains	(1)	2
Allocated transmission instruments		1
Settlements	(2)	(5)
Balance as of March 31	\$ 58	\$ 21
Change in unrealized gains or losses relating to		

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Sempra Energy Consolidated:					
Investments in affordable housing partnerships(4)	\$ 12	\$	\$	\$ 36	\$ 36
Total long-term debt(1)	11,873		12,287	956	13,243
Preferred stock of subsidiaries	99		107		107
SDG&E:					
Total long-term debt(2)	\$ 4,135	\$	\$ 4,243	\$ 345	\$ 4,588
Contingently redeemable preferred stock	79		85		85
SoCalGas:					
Total long-term debt(3)	\$ 1,413	\$	\$ 1,599	\$	\$ 1,599
Preferred stock	22		24		24

- (1) Before reductions for unamortized discount (net of premium) of \$16 million at both March 31, 2013 and December 31, 2012, and excluding capital leases of \$188 million at March 31, 2013 and \$189 million at December 31, 2012, and commercial paper classified as long-term debt of \$300 million at December 31, 2012. 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) Before reductions for unamortized discount of \$12 million at both March 31, 2013 and December 31, 2012, and excluding capital leases of \$184 million at March 31, 2013 and \$185 million at December 31, 2012.
- (3) Before reductions for unamortized discount of \$4 million at both March 31, 2013 and December 31, 2012, and excluding capital leases of \$4 million at both March 31, 2013 and December 31, 2012.
- (4) Investments in affordable housing partnerships at Parent and Other.

We base the fair value of certain of our long-term debt and preferred stock on a market approach using quoted market prices for identical or similar securities in thinly-traded markets (Level 2). We value other long-term debt using an income approach based on the present value of estimated future cash flows discounted at rates available for similar securities (Level 3).

We calculated the fair value of our investments in affordable housing partnerships using an income approach based on the present value of estimated future cash flows discounted at rates available for similar investments (Level 3).

Nuclear Decommissioning Trusts

We discuss SDG&E's investments in nuclear decommissioning trust funds in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report. The following table shows the fair values and gross unrealized gains and losses for the securities held in the trust funds:

NUCLEAR DECOMMISSIONING TRUSTS

(Dollars in millions)

	Gross Unrealized	Gross Unrealized	Estimated Fair
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	Cost	Gains	Losses	Value
As of March 31, 2013:				
Debt securities:				
Debt securities issued by the U.S.				
Treasury and other				
U.S. government corporations and				
agencies(1)	\$ 170	\$ 8	\$ (1)	\$ 177
Municipal bonds(2)	58	6		64
Other securities(3)	129	6	(1)	134
Total debt securities	357	20	(2)	375
Equity securities	238	333	(2)	569
Cash and cash equivalents	8			8
Total	\$ 603	\$ 353	\$ (4)	\$ 952
As of December 31, 2012:				
Debt securities:				
Debt securities issued by the U.S.				
Treasury and other				
U.S. government corporations and				
agencies	\$ 147	\$ 9	\$	\$ 156
Municipal bonds	57	6		63
Other securities	121	10	(1)	130
Total debt securities	325	25	(1)	349
Equity securities	249	292	(2)	539
Cash and cash equivalents	20			20
Total	\$ 594	\$ 317	\$ (3)	\$ 908
(1)	Maturity dates are 2013-2042			
(2)	Maturity dates are 2013-2111			
(3)	Maturity dates are 2013-2112			

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

SALES OF SECURITIES
(Dollars in millions)

	Three months ended March 31,	
	2013	2012
Proceeds from sales	\$ 134	\$ 129
Gross realized gains	5	4
Gross realized losses	(3)	

Net unrealized gains (losses) are included in Regulatory Liabilities Arising from Removal Obligations on the Condensed Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

Non-Recurring Fair Value Measures – Sempra Energy Consolidated

We discuss non-recurring fair value measures and the associated accounting impact on our investments in RBS Sempra Commodities, our Argentine utilities and Rockies Express in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 9. CALIFORNIA UTILITIES' REGULATORY MATTERS

We discuss 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

General Rate Case (GRC)

The CPUC uses a general rate case proceeding to prospectively set rates sufficient to allow the California Utilities to recover their reasonable cost of operations and maintenance and to provide the opportunity to realize their authorized rates of return on their investment. In December 2010, the California Utilities filed their 2012 General Rate Case (GRC) applications to establish their authorized 2012 revenue requirements and the ratemaking mechanisms by which those requirements will change on an annual basis over the subsequent three-year (2013-2015) period. Both SDG&E and SoCalGas filed revised applications with the CPUC in July 2011. Evidentiary hearings were completed in January 2012, and final briefs reflecting the results from these hearings were filed with the CPUC in May 2012.

In February 2012, the California Utilities filed amendments to update their July 2011 revised applications. With these amendments, SDG&E is requesting a revenue requirement in 2012 of \$1.849 billion, an increase of \$235 million (or 14.6 percent) over 2011, of which \$67 million is being requested for cost recovery of the incremental wildfire insurance premiums which are not included in the 2011 revenue requirement as set forth in the 2008 GRC. SoCalGas is requesting a revenue requirement in 2012 of \$2.112 billion, an increase of \$268 million (14.5 percent) over 2011.

In March 2013, the CPUC issued a proposed draft decision (2012 GRC PD) that would establish a 2012 revenue requirement of \$1.749 billion for SDG&E and \$1.952 billion for SoCalGas. This represents an increase of \$135 million (8.4 percent) and \$108 million (5.9 percent) over the authorized 2011 revenue requirements of SDG&E and SoCalGas, respectively. The 2012 GRC PD would also establish a four-year GRC period (through 2015); subsequent escalation of the adopted revenue requirements for years 2013, 2014 and 2015 based on the Consumer Price Index – Urban (CPI-U); and the 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 circumstances, incurred between GRC filings from unforeseen events subject to a \$5 million deductible per event.

On April 18, 2013, the California Utilities filed comments in response to the 2012 GRC PD with the CPUC recommending changes to the proposed 2012 revenue requirements, citing significant errors that should be addressed. The issues identified by the California Utilities in their filed comments equate to the 2012 GRC PD's proposed revenue requirement being understated by \$3 million and \$52 million for SDG&E and SoCalGas, respectively. Among the major issues in the 2012 GRC PD identified by the California Utilities in the filed comments are: 1) discrepancies between the detail in the model used by the CPUC in determining the proposed 2012 revenue requirements when compared to the language in the 2012 GRC PD; 2) recovery of amounts for the funding of pension plans that are in excess of what the current funding levels of these plans are expected to be based on current pension funding guidelines; 3) reductions for the funding of critical SoCalGas gas operations and customer service departments; and 4)

the level of funding for the employees' short-term incentive compensation plans when compared to the CPUC's assessment of the level of total employee compensation for the California Utilities and to what has been approved in other recent California investor-owned utilities' GRC decisions.

In addition to the issues comprising the understatement of the 2012 GRC PD's revenue requirement for 2012, the filed comments also identify an inconsistency in the 2012 GRC PD's design of the proposed attrition mechanism when compared to the attrition mechanism adopted in other recent California investor-owned utilities' GRC decisions. The 2012 GRC PD proposes the use of the CPI-U, rather than a utility-industry index, as the basis for Post Test Year escalation. The filed comments provide a comparison of what the attrition would be based on the CPI-U as compared to the attrition mechanism adopted in recent GRCs for other regulated utilities. This comparison shows that, on average over the past five years (2007 – 2012), the utility-industry index for SDG&E and SoCalGas was 170 basis points (1.7 percent) and 140 basis points (1.4 percent) higher, respectively, than the CPI-U. In their filed comments, the California Utilities urge the CPUC to reject the use of the CPI-U as the index and adopt a utility-industry index or indices, similar to what was adopted for other California investor-owned utilities in their most recent GRC proceedings.

We expect a final CPUC decision, which will be made effective retroactive to January 1, 2012, in the second quarter of 2013. The financial impact of the final CPUC decision, retroactive to January 1, 2012, will be reflected in the California Utilities' financial statements in the period in which the final CPUC decision is issued. Because a final decision for the 2012 GRC was not issued by March 31, 2013, the California Utilities have recorded revenues in 2012 and in the first quarter of 2013 based on levels authorized in 2011 plus, for SDG&E and consistent with the recent CPUC decisions for cost recovery for SDG&E's incremental wildfire insurance premiums, an amount for the recovery of 2012 wildfire insurance premiums.

Cost of Capital

A cost of capital proceeding determines a utility's authorized capital structure and authorized rate of return on rate base (ROR), which is a weighted average of the authorized returns on debt, preferred stock, and common equity (return on equity or ROE), weighted on a basis consistent with the authorized capital structure. The authorized ROR is the rate that the California Utilities are authorized to use in establishing rates to recover the cost of debt and equity used to finance their investment in electric and natural gas distribution, natural gas transmission and electric generation assets. In addition, a cost of capital proceeding also addresses the automatic ROR adjustment mechanism which applies market-based benchmarks to determine whether an adjustment to the authorized ROR is required during the interim years between cost of capital proceedings.

SDG&E and SoCalGas filed separate applications with the CPUC in April 2012 to update their cost of capital effective January 1, 2013. The CPUC issued a ruling in June 2012 bifurcating the proceeding. Phase 1 addressed each utility's cost of capital for 2013, with a final decision issued in December 2012, which granted SDG&E and SoCalGas an authorized ROR of 7.79 percent and 8.02 percent, respectively. The CPUC-authorized ROR in effect prior to the effective date of this decision was 8.40 percent for SDG&E and 8.68 percent for SoCalGas. We provide additional details regarding the cost of capital proceeding in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report. Phase 2 addressed the cost of capital adjustment mechanisms for SDG&E, SoCalGas, Southern California Edison (Edison) and Pacific Gas & Electric Company (PG&E).

SDG&E, SoCalGas, PG&E, Edison and the Division of Ratepayer Advocates (DRA) sponsored a joint stipulation in Phase 2 of the proceeding. In March 2013, the CPUC's final decision adopted the joint stipulation, as proposed. SDG&E retains its current cost of capital adjustment mechanism, and SoCalGas will implement this same adjustment mechanism, which we describe in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report. Both utilities are forgoing their proposed off-ramp provision.

Natural Gas Pipeline Operations Safety Assessments

Various regulatory agencies, including the CPUC, are evaluating natural gas pipeline safety regulations, practices and procedures. In February 2011, the CPUC opened a forward-looking rulemaking proceeding to examine what changes should be made to existing pipeline safety regulations for California natural gas pipelines. The California Utilities are parties to this proceeding.

In June 2011, the CPUC directed SoCalGas, SDG&E, PG&E and Southwest Gas to file comprehensive implementation plans to test or replace all natural gas transmission pipelines that have not been pressure tested. The California Utilities filed their Pipeline Safety Enhancement Plan (PSEP) with the CPUC in August 2011. The proposed safety measures, investments and estimated costs are not included in the California Utilities' 2012 GRC requests discussed above.

In December 2011, the assigned Commissioner to the rulemaking proceeding for the pipeline safety regulations ruled that SDG&E's and SoCalGas' Triennial Cost Allocation Proceeding (TCAP) would be the most logical proceeding to conduct the reasonableness and ratemaking review of the companies' PSEP.

In January 2012, the CPUC Consumer Protection and Safety Division (CPSD) issued a Technical Report of the California Utilities' PSEP. The report, along with testimony and evidentiary hearings, will be used to evaluate the PSEP in the regulatory process. Generally, the report found that the PSEP approach to pipeline replacement and pressure testing and other proposed enhancements is reasonable.

In February 2012, the assigned Commissioner in the TCAP issued a ruling setting a schedule for the review of the SDG&E and SoCalGas PSEP with evidentiary hearings held in August 2012. SDG&E and SoCalGas expect a final decision in 2013. In April 2012, the CPUC issued an interim decision in the rulemaking proceeding formally transferring the PSEP to the TCAP and authorizing SDG&E and SoCalGas to establish regulatory accounts to record the incremental costs of initiating the PSEP prior to a final decision on the PSEP. The TCAP proceeding will address the recovery of the costs recorded in the regulatory account.

In April 2012, the CPUC issued a decision expanding the scope of the rulemaking proceeding to incorporate the provisions of California Senate Bill (SB) 705, which requires gas utilities to develop and implement a plan for the safe and reliable operation of their gas pipeline facilities. SDG&E and SoCalGas submitted their pipeline safety plans in June 2012. The CPUC decision also orders the utilities to undergo independent management and financial audits to assure that the utilities are fully meeting their safety responsibilities. CPSD will select the independent auditors and will oversee the audits. A schedule for the audits has not been established. In December 2012, the CPUC issued a final decision accepting the utility safety plans filed pursuant to SB 705.

We provide additional information regarding these rulemaking proceedings and the California Utilities' PSEP in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Utility Incentive Mechanisms

The CPUC applies performance-based measures and incentive mechanisms to all California investor-owned utilities, under which the California Utilities have earnings potential above authorized base margins if they achieve or exceed specific performance and operating goals.

We provide additional information regarding these incentive mechanisms in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report, and below.

Natural Gas Procurement

In the first quarter of 2012, the CPUC approved and SoCalGas recorded SoCalGas' application for its Gas Cost Incentive Mechanism (GCIM) award of \$6.2 million for natural gas procured for its core customers during the 12-month period ending March 31, 2011. SoCalGas expects a final decision on its pending application requesting a GCIM award of \$5.4 million for the 12-month period ending March 31, 2012 in the second half of 2013.

SDG&E MATTERS

San Onofre Nuclear Generating Station (SONGS)

SDG&E has a 20-percent ownership interest in San Onofre Nuclear Generating Station (SONGS), a 2,150-MW nuclear generating facility near San Clemente, California. SONGS is operated by Edison and is subject to the jurisdiction of the Nuclear Regulatory Commission (NRC) and the CPUC.

In 2005, the CPUC authorized a project to install four new steam generators in Units 2 and 3 at SONGS and remove and dispose of their predecessor generators. Edison completed the installation of these steam generators in 2010 and 2011 for Units 2 and 3, respectively. In January 2012, a water leak occurred in the Unit 3 steam generator which caused it to be shut down. Edison conducted inspection testing and determined that the water leak was the result of excessive wear from tubes rubbing against each other as well as against retainer bars in the heat transfer tube bundles. Unit 2 was shut down at the time of this event for a planned maintenance and refueling outage. Inspection of Unit 2 steam generators performed in February 2012 found unexpectedly high levels of wear in some heat transfer tubes of the Unit 2 steam generators. As a result of these findings, Edison has plugged and removed from service all tubes showing excessive wear in each of the steam generators. In addition, Edison has preventively plugged all tubes in contact with the retainer bars or in the area of the tube bundles where tube-to-tube contact occurred. As of the filing date of this report, both Units 2 and 3 remain offline.

Restart of one or both of the Units will need to be approved by the NRC. In March 2012, the NRC issued a Confirmatory Action Letter (CAL) that required NRC permission to restart Unit 2 and Unit 3 and outlined actions that Edison must complete before permission to restart either Unit may be sought. The NRC could also impose additional inspections and assessment processes that could result in significant costs or additional delay. In October 2012, Edison submitted to the NRC a response to the CAL along with a restart plan for Unit 2, proposing to operate the Unit at a reduced power level for five months and then shut it down for further inspection. The plan submitted to the NRC does not address Unit 3. The NRC has been engaged in a series of inspections, evaluations, reviews and public meetings about the causes of the outage and to verify that Edison has performed the actions described in the CAL response. The NRC has made numerous requests for additional information to determine whether to allow SONGS to operate at less than 100 percent thermal power or have Edison submit further operational assessments demonstrating the structural integrity of the steam generator tubes at 100 percent thermal power. The CAL is also currently the subject of a hearing request before the NRC.

Although Edison has advised the NRC that it does not believe a license amendment would be required, in March 2013 Edison voluntarily submitted an additional operational assessment addressing the issue of structural integrity at 100 percent thermal power, and in April 2013, Edison submitted a license amendment request (LAR) for Unit 2. The LAR is intended to modify the license to reflect the reduced maximum power level, as a temporary change for approximately two years, after which new amendments for long-term power operations would be required. The NRC published the LAR in the Federal Register on April 16, 2013. In the Federal Register notice, the NRC explained that it has made a proposed determination that the LAR involves no significant hazards consideration (NSHC). Third parties have 30 days after the date of publication of the notice to submit comments on the proposed NSHC determination and 60 days to file requests for a hearing or petitions to intervene. If the NRC makes a NSHC determination, then a license

amendment can be issued without further proceeding. If the NRC does not make such a NSHC determination, then the LAR could become subject to an extensive public hearing process prior to its issuance of a license amendment. Even if the NRC does make a final NSHC determination and issues the license amendment, any such determination could be subject to a motion for stay of issuance of the license amendment before the NRC or the applicable United States Court of Appeals.

In summary, two separate processes are underway at the NRC that will affect whether Edison will be in a position to restart Unit 2 in a timely manner. The NRC must approve a restart under the CAL and must issue the requested license amendment before Unit 2 restart can proceed. Both of these processes are subject to potentially extended hearings prior to the NRC taking the requested action. In addition, the NRC is not obligated to act on either request within a specified period of time and may decline to approve a restart of Unit 2 under the CAL, issue the requested license amendment, or both.

Accordingly, there can be no assurance about the length of time the NRC may take to review the request to restart Unit 2 and other submissions, including the operational assessment and the LAR, or whether the request to restart will be granted in whole or in part. However, in connection with making the LAR, Edison has requested the NRC Staff to reach conclusions about the restart of Unit 2 by June 1, if possible. Based on discussions with Edison, neither SDG&E nor Edison expect such decision by the requested date.

Also, due to the more extensive tube-to-tube wear that occurred in Unit 3, it remains unclear whether Unit 3 will be able to restart without additional repairs and corrective actions. The ability to restart Unit 3 may also be affected by the information obtained about the operating performance of Unit 2, should Unit 2 be restarted. Each Unit will only be restarted when all necessary repairs and appropriate mitigation plans for that Unit are completed in accordance with the CAL and when the NRC and Edison are satisfied that it is safe to restart and operate such Unit.

If Edison is unable to restart Unit 2, a retirement of Unit 2 could also result in the retirement of Unit 3. If Unit 2 does restart, then an assessment of the feasibility of restarting Unit 3 without extensive repairs will be conducted. Without a restart of Unit 2, a decision to retire one or both Units could be made before year-end 2013. Through March 31, 2013, SDG&E's proportional investment in the steam generators, net of accumulated depreciation, was approximately \$149 million. In March 2013, Edison filed the final costs for the steam generator project with the CPUC. The total project costs, after adjusting for inflation using the Handy-Whitman Index, was within the amount authorized in the CPUC decision approving the project.

In October 2012, the CPUC issued an Order Instituting Investigation (OII) into the SONGS outage pursuant to California Public Utilities Code Section 455.5 to determine whether Edison and SDG&E should remove from customer rates some or the entire revenue requirement associated with the portion of the facility that is out of service. This OII will consolidate all SONGS issues from related regulatory proceedings and consider the appropriate cost recovery for SONGS, including among other costs, the cost of the steam generator replacement project, replacement power costs, capital expenditures, operation and maintenance costs and seismic study costs. The OII requires that all costs related to SONGS incurred since January 1, 2012 be tracked in a separate memorandum account, with all revenues collected in recovery of such costs subject to refund, and will address the extent to which such revenues, if any, will be required to be refunded to customers.

During the unscheduled outage at SONGS, SDG&E has procured replacement power, the cost of which is fully recovered in revenues subject to review and potential disallowance by the CPUC. The estimated replacement power cost requirements specified in the OII proceeding, including estimated foregone energy sales from excess SONGS production, produce a replacement power cost estimate, in excess of avoided nuclear fuel costs, that is incurred by SDG&E through March 31, 2013, as a result of the unscheduled SONGS outage (commencing in 2012 on January 31 for Unit 3 and March 5 for Unit 2) of approximately \$107 million, of which \$35 million was incurred in the first quarter of 2013. Total replacement power costs will not be known until the Units are returned to service and are fully operational.

Currently, SDG&E is collecting in customer rates its share of the operating costs, depreciation and return on its investment in SONGS. In 2012, SDG&E recognized approximately \$199 million of revenue associated with its investment in SONGS and related operating costs. For the quarter ended March 31, 2013, SDG&E recognized an estimated \$39 million of such revenue. Following is a summary of SDG&E's March 31, 2013 net book investment, excluding any decommissioning-related assets and liabilities, and its rate base investment in SONGS:

SUMMARY OF SDG&E NET BOOK INVESTMENT AND RATE BASE INVESTMENT IN SONGS(1)
(Dollars in millions)

	Unit 2	Unit 3	Common Plant	Total
Net book investment:				
Net property, plant and equipment, including construction work in progress	\$ 151	\$ 115	\$ 127	\$ 393
Materials and supplies			10	10
Nuclear fuel			116	116
Net book investment	\$ 151	\$ 115	\$ 253	\$ 519
Rate base investment	\$ 99	\$ 94	\$ 78	\$ 271
(1)	Excludes nuclear decommissioning-related assets and liabilities.			

Under Section 455.5, any determination to adjust rates would be made after the CPUC conducts hearings. If, after investigation and hearings, the CPUC were to require SDG&E to reduce rates as a result of a Unit being out of service and the Unit is subsequently returned to service, rates may be readjusted to reflect that return to service after 100 continuous hours of operation. Notwithstanding the requirements of Section 455.5, the CPUC may institute other proceedings relating to the impact of the extended outage at SONGS and its potential effects on rates.

A ruling was issued in January 2013 setting the initial scope and schedule for the OII, which will be managed in phases. The first phase will identify the costs at issue, including the excess replacement power costs, for 2012, with a decision expected by mid-2013. Phase 2 will address the issue of costs remaining in rates, with a decision expected by the end of 2013. Phase 3 will review the steam generator replacement project costs for reasonableness, with a decision expected by the end of 2014. Costs at issue for 2013 would be addressed in a fourth phase of the OII, but a schedule for this phase has not been established.

SDG&E continues to provide information to the CPUC in response to inquiries stemming from the OII, and it is SDG&E's intent to continue to pursue continued recovery in rates of its investment in SONGS (including the cost of the steam generator replacement project), its authorized return on its investment in SONGS and recovery of all costs incurred related to its proportionate share of the SONGS operating and maintenance costs and the cost incurred for replacement power in excess of avoided nuclear fuel costs. As of March 31, 2013, it is SDG&E's opinion that there is insufficient information available to conclude that it is probable that the CPUC will require SDG&E to refund any of the SONGS revenue that is subject to review in the OII to customers. Should SDG&E conclude that it is probable that a portion or all of such revenue will be required to be refunded to customers, SDG&E will record a charge against earnings at the time such conclusion is reached.

The steam generators were designed and supplied by Mitsubishi Heavy Industries (MHI) and are warranted for an initial period of 20 years from acceptance. MHI is contractually obligated to repair or replace defective items and to pay specified damages for certain repairs. In July 2012, the NRC issued a report providing the result of the inspection performed by the Augmented Inspection Team (AIT) of Edison's performance as the SONGS Operating Agent. The

inspection concluded that faulty computer modeling that inadequately predicted conditions in the steam generators at SONGS and manufacturing issues contributed to excessive wear of the components. The most probable causes of the tube-to-tube wear were a combination of higher than predicted thermal/hydraulic conditions and changes in the manufacturing of the Unit 3 steam generators. This report also identified a number of yet unresolved issues that are continuing to be examined. Edison's purchase contract with MHI states that MHI's liability under the purchase agreement is limited to \$138 million and excludes consequential damages, defined to include the cost of replacement power. Such limitations in the contract are subject to certain exceptions. Edison, on behalf of all owners, has formally notified MHI that it believes that one or more of such exceptions now apply and that MHI's liability is not limited to \$138 million. MHI has advised Edison that it disagrees with Edison's position. This disagreement may ultimately become the subject of dispute resolution procedures as set forth in the contract with MHI, including international arbitration. Edison has submitted invoices on behalf of all owners to MHI in the aggregate amount of \$139 million for certain steam generator repair costs incurred through February 28, 2013, of which MHI has paid \$45 million but reserved the right to challenge any of the charges in the invoice. In January 2013, MHI advised Edison that it rejected a portion of the first invoice and required further documentation regarding the remainder of the invoice. Edison expects to continue to invoice MHI for any additional costs incurred.

SDG&E is a named insured on the Edison insurance policies covering SONGS. These policies, issued by Nuclear Electric Insurance Limited (NEIL), cover nuclear property and non-nuclear property damage at the SONGS facility, as well as accidental outage insurance. Edison has placed NEIL on notice of potential claims for loss recovery. As of the date of this report, Edison submitted to NEIL a separate Partial Proof of Loss on behalf of each of Edison, SDG&E and the City of Riverside in connection with the outages of SONGS Units 2 and 3 through December 29, 2012, that total \$234 million. The NEIL policies contain a number of exclusions and limitations that may reduce or eliminate coverage. SDG&E will assist Edison in pursuing claims recoveries from NEIL, as well as warranty claims with MHI, but there is no assurance that SDG&E will recover all or any of its applicable costs pursuant to these arrangements. We provide additional information about insurance related to SONGS in Note 10.

Edison is also addressing a number of other regulatory and performance issues at SONGS. Edison continues to implement plans and address the identified issues, however a number of these issues remain outstanding. To the extent that these issues persist, it is likely that additional action will be required by Edison, which may result in increased SONGS operating costs and/or materially adversely impacted operations. Currently, SDG&E is allowed to fully offset its share of SONGS operating costs in revenue. If further action is required, it may result in an increase in SDG&E's Operation and Maintenance expense, with any increase being fully offset in Operating Revenues – Electric.

In light of the aftermath and the significant safety events at the Fukushima Daiichi nuclear plant in Japan resulting from the earthquake and tsunami in March 2011, the NRC plans to perform additional operation and safety reviews of nuclear facilities in the United States. The NRC has also required additional actions by licensees to address severe accident risk and has requested additional analysis on external hazards such as seismic and tsunami. The lessons learned from the events in Japan and the results of the NRC reviews may materially impact future operations and capital requirements at nuclear facilities in the United States, including the operations and capital requirements at SONGS.

We provide more information about SONGS in Note 10 following and in Notes 6, 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Power Procurement and Resource Planning

Cleveland National Forest Transmission Projects

SDG&E filed an application with the CPUC in October 2012 for a permit to construct various transmission replacement projects in and around the Cleveland National Forest. The proposed projects will replace and fire-harden five transmission lines at an estimated cost of \$420 million. The projects are subject to review by the U.S. Forest Service (USFS). A joint environmental report will be developed by the CPUC and USFS. SDG&E expects a CPUC decision approving the transmission projects in 2014. We expect the projects to be in service by 2017.

South Orange County Reliability Enhancement

SDG&E filed an application with the CPUC in May 2012 for a Certificate of Public Convenience and Necessity to construct the South Orange County Reliability Enhancement project. The purpose of the project is to enhance the capacity and reliability of SDG&E's electric service to the south Orange County area. The proposed project primarily includes replacing and upgrading approximately eight miles of transmission lines and rebuilding and upgrading a substation at an existing site. SDG&E expects a final CPUC decision approving the estimated \$473 million project in 2014. SDG&E obtained approval for the project from the ISO in May 2011. The project is planned to be in service by the second half of 2017.

Incremental Insurance Premium Cost Recovery

Since December 2010, the CPUC has approved SDG&E's requests to recover in rates the incremental increase in its general liability and wildfire liability insurance premium costs starting with the July 2009/June 2010 policy period and for each subsequent policy period through December 31, 2011, which SDG&E began incurring commencing July 1, 2009.

In the CPUC's December 2010 decision, discussed above and in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report, the CPUC directed SDG&E to include in its 2012 GRC application the amount of the incremental wildfire insurance premiums it would be seeking recovery for in rates subsequent to December 31, 2011. SDG&E's 2012 GRC application does request \$67 million of revenue requirement for cost recovery of wildfire insurance premiums in 2012. As a decision on SDG&E's 2012 GRC application is pending with the CPUC, and based on the CPUC's rulings for the recovery of the cost of the incremental wildfire insurance premiums incurred since July 2009, SDG&E's first quarter 2012 and 2013 revenue reflects the recovery of the cost of the incremental wildfire insurance premiums at a level consistent with what was approved for recovery for the policy period starting July 2011.

Excess Wildfire Claims Cost Recovery

SDG&E and SoCalGas filed an application, along with other related filings, with the CPUC in August 2009 proposing a new framework and mechanism for the future recovery of all wildfire-related expenses for claims, litigation expenses and insurance premiums that are in excess of amounts authorized by the CPUC for recovery in distribution rates. In December 2012, the CPUC issued a final decision that ultimately did not approve the proposed framework for the utilities but allowed SDG&E to maintain its authorized memorandum account, so that SDG&E may file applications with the CPUC requesting recovery of amounts properly recorded in the memorandum account at a later time, subject to reasonableness review.

SDG&E intends to pursue recovery of such costs in a future application. SDG&E will continue to assess the potential for recovery of these costs in rates. Should SDG&E conclude that recovery in rates is no longer probable, SDG&E will record a charge against earnings at the time such conclusion is reached. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated as of March 31, 2013, the resulting after-tax charge against earnings would have been up to \$190 million. In addition, in periods following any such conclusion, SDG&E's earnings will be adversely impacted by increases in the

estimated cost to litigate or settle pending wildfire claims. We discuss how we assess the probability of recovery of our regulatory assets in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

We provide additional information about 2007 wildfire litigation costs and their recovery in Note 10.

NOTE 10. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

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

At March 31, 2013, Sempra Energy's accrued liabilities for material legal proceedings, on a consolidated basis, were \$283 million. At March 31, 2013, accrued liabilities for material legal proceedings for SDG&E and SoCalGas were \$267 million and \$5 million, respectively. At March 31, 2013, accrued liabilities of \$266 million at Sempra Energy and SDG&E were related to wildfire litigation discussed below.

SDG&E

2007 Wildfire Litigation

In October 2007, San Diego County experienced several catastrophic wildfires. Reports issued by the California Department of Forestry and Fire Protection (Cal Fire) concluded that two of these fires (the Witch and Rice fires) were SDG&E "power line caused" and that a third fire (the Guejito fire) occurred when a wire securing a Cox Communications' (Cox) fiber optic cable came into contact with an SDG&E power line "causing an arc and starting the fire." Cal Fire reported that the Rice fire burned approximately 9,500 acres and damaged 206 homes and two commercial properties, and the Witch and Guejito fires merged and eventually burned approximately 198,000 acres, resulting in two fatalities, approximately 40 firefighters injured and an estimated 1,141 homes destroyed.

A September 2008 staff report issued by the CPUC's CPSD reached substantially the same conclusions as the Cal Fire reports, but also contended that the power lines involved in the Witch and Rice fires and the lashing wire involved in the Guejito fire were not properly designed, constructed and maintained. In April 2010, proceedings initiated by the CPUC to determine if any of its rules were violated were settled with SDG&E's payment of \$14.75 million.

Numerous parties have sued SDG&E and Sempra Energy in San Diego County Superior Court seeking recovery of unspecified amounts of damages, including punitive damages, from the three fires. These include owners and insurers of properties that were destroyed or damaged in the fires and government entities seeking recovery of firefighting, emergency response, and environmental costs. They assert various bases for recovery, including inverse condemnation based upon a California Court of Appeal decision finding that another California investor-owned utility was subject to strict liability, without regard to foreseeability or negligence, for property damages resulting from a wildfire ignited by

power lines.

In October 2010, the Court of Appeal affirmed the trial court's ruling that these claims must be pursued in individual lawsuits, rather than as class actions on behalf of all persons who incurred wildfire damages. In February 2011, the California Supreme Court denied a petition for review of the affirmance. No trial date is currently scheduled.

SDG&E filed cross-complaints against Cox seeking indemnification for any liability that SDG&E might incur in connection with the Guejito fire, two SDG&E contractors seeking indemnification in connection with the Witch fire, and one SDG&E contractor seeking indemnification in connection with the Rice fire. SDG&E settled its claims against Cox and the three contractors for a total of approximately \$824 million. Among other things, the settlement agreements provide that SDG&E will defend and indemnify Cox and the three contractors against all compensatory damage claims and related costs arising out of the wildfires.

SDG&E has settled all of the approximately 19,000 claims brought by homeowner insurers for damage to insured property relating to the three fires. Under the settlement agreements, SDG&E has paid or will pay 57.5 percent of the approximately \$1.6 billion paid or reserved for payment by the insurers to their policyholders and received an assignment of the insurers' claims against other parties potentially responsible for the fires.

The wildfire litigation also includes claims of non-insurer plaintiffs for damage to uninsured and underinsured structures, business interruption, evacuation expenses, agricultural damage, emotional harm, personal injuries and other losses. SDG&E has settled the claims of approximately 5,250 of these plaintiffs, including all of the government entities. Approximately 1,100 of the approximately 1,250 remaining individual and business plaintiffs have submitted settlement demands and damage estimates totaling approximately \$1 billion. SDG&E does not expect a significant number of additional plaintiffs to file lawsuits given the applicable statutes of limitation, but does expect to receive additional settlement demands and damage estimates from existing plaintiffs as settlement negotiations continue. SDG&E has established reserves for the wildfire litigation as we discuss below.

SDG&E's settled claims and defense costs have exceeded its \$1.1 billion of liability insurance coverage for the covered period and the \$824 million recovered from third parties. It expects that its wildfire reserves and amounts paid to resolve wildfire claims will continue to increase as it obtains additional information.

As we discuss in Note 9, SDG&E has concluded that it is probable that it will be permitted to recover in rates a substantial portion of its reasonably incurred costs of resolving wildfire claims in excess of its liability insurance coverage and the amounts recovered from third parties. Accordingly, although such recovery will require future regulatory approval, at March 31, 2013, Sempra Energy and SDG&E have recorded assets of \$360 million in Regulatory Assets Arising From Wildfire Litigation Costs on their Condensed Consolidated Balance Sheets, including \$321 million related to CPUC-regulated operations, which represents the amount substantially equal to the aggregate amount it has paid or reserved for payment for the resolution of wildfire claims and related costs in excess of its liability insurance coverage and amounts recovered from third parties. SDG&E will increase the regulatory assets if the estimate of amounts to settle remaining claims increases.

SDG&E will continue to assess the probability of recovery of these excess wildfire costs in rates. Should SDG&E conclude that recovery in rates is no longer probable, SDG&E will record a charge against earnings at the time such conclusion is reached. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated as of March 31, 2013, the resulting after-tax charge against earnings would have been up to \$190 million. In addition, in periods following any such conclusion, SDG&E's earnings will be adversely impacted by increases in the estimated cost to litigate or settle pending wildfire claims. We provide additional information about excess wildfire claims cost recovery and related CPUC actions in Note 9 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.

SDG&E's cash flow may be materially adversely affected due to the timing differences between the resolution of claims and the recoveries in rates, which may extend over a number of years. Also, recovery from customers will require future regulatory actions, and a failure to obtain substantial or full recovery, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's businesses, financial condition, cash flows, results of operations and prospects.

SDG&E will continue to gather information to evaluate and assess the remaining wildfire claims and the likelihood, amount and timing of related recoveries in rates and will make appropriate adjustments to wildfire reserves and the related regulatory assets as additional information becomes available.

Since 2010, as liabilities for wildfire litigation have become reasonably estimable in the form of settlement demands, damage estimates, and other damage information, SDG&E has recorded related reserves as a liability. The impact of this liability at March 31, 2013 is offset by the recognition of regulatory assets, as discussed above, for reserves in excess of the insurance coverage and recoveries from third parties. The impact of the reserves on SDG&E's and Sempra Energy's after-tax earnings was \$0.3 million and \$1.6 million for the three months ended March 31, 2013 and 2012, respectively. At March 31, 2013, wildfire litigation reserves were \$266 million (\$221 million current and \$45 million long-term). Additionally, through March 31, 2013, SDG&E has expended \$190 million (cumulative, excluding amounts covered by insurance and amounts recovered from third parties) to pay for the settlement of wildfire claims and related costs.

Sunrise Powerlink Electric Transmission Line

The Sunrise Powerlink is a 117-mile, 500-kilovolt (kV) electric transmission line between the Imperial Valley and the San Diego region that was energized and placed in service in June 2012. The Sunrise Powerlink project was approved by the CPUC in December 2008, the Bureau of Land Management (BLM) in January 2009, and the USFS in July 2010. Numerous administrative appeals and legal challenges have been resolved in favor of the project. Three legal challenges are pending.

In February 2010, project opponents filed a lawsuit in Federal District Court in San Diego alleging that the BLM failed to properly address the environmental impacts of the approved Sunrise Powerlink route and the related potential development of renewable resources in east San Diego County and Imperial County. In July 2012, the U.S. Court of Appeals for the Ninth Circuit affirmed the District Court's grant of the defendants' motion for summary judgment.

In January 2011, project opponents filed a lawsuit in Federal District Court in San Diego alleging that the federal approvals for construction of the project on USFS land and BLM land violated the National Environmental Policy Act and other federal environmental laws. In June 2012, the U.S. Court of Appeals for the Ninth Circuit affirmed the District Court's denial of plaintiffs' motion for a preliminary injunction.

In February 2011, opponents of the Sunrise Powerlink filed a lawsuit in Sacramento County Superior Court against the State Water Resources Control Board and SDG&E alleging that the water quality certification issued by the Board under the Federal Clean Water Act violated the California Environmental Quality Act. The Superior Court denied the plaintiffs' petition in July 2012, and the plaintiffs have appealed.

SDG&E is currently evaluating a claim for additional compensation submitted by one of its contractors on the Sunrise Powerlink project. The contractor was awarded the transmission line overhead and underground construction contract on a fixed-fee basis of \$456 million after agreed-upon amendments. The contractor has submitted a request for additional compensation above the fixed-fee portion of the contract, seeking an additional \$230 million. At this time, based on the documentation submitted by the contractor and the terms of the fixed-fee agreement, SDG&E has concluded that the contractor has not supported its claim for additional compensation in the amount it has requested.

September 2011 Power Outage

In September 2011, a power outage lasting approximately 12 hours affected millions of people from Mexico to southern Orange County, California. Within several days of the outage, several SDG&E customers filed a class action lawsuit in Federal District Court in San Diego against Arizona Public Service Company, Pinnacle West, and SDG&E alleging that the companies failed to prevent the outage. The lawsuit seeks recovery of unspecified amounts of damages, including punitive damages. In July 2012, the court granted SDG&E's motion to dismiss the punitive damages request and dismissed Arizona Public Service Company and Pinnacle West from the lawsuit. In addition, more than 7,000 customers' claims, primarily related to food spoilage, have been submitted directly to SDG&E. The Federal Energy Regulatory Commission (FERC) and North American Electric Reliability Corporation (NERC) conducted a joint inquiry to determine the cause of the power failure and issued a report in May 2012 regarding their findings. The report does not make any findings of failure on SDG&E's part that led to the power failure.

Smart Meters Patent Infringement Lawsuit

In October 2011, SDG&E was sued by a Texas design and manufacturing company in Federal District Court, Southern District of California, and later transferred to the Federal District Court, Western District of Oklahoma, alleging that SDG&E's recently installed smart meters infringed certain patents. The meters were purchased from a third party vendor that has agreed to defend and indemnify SDG&E. The lawsuit seeks injunctive relief and recovery of unspecified amounts of damages.

SoCalGas

SoCalGas, along with Monsanto Co., Solutia, Inc., Pharmacia Corp., and Pfizer, Inc., are defendants in six 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 two of the six lawsuits for an amount that is not significant and has been recorded.

Sempra Natural Gas

Liberty Gas Storage, LLC (Liberty) received a demand for arbitration from Williams Midstream Natural Gas Liquids, Inc. (Williams) in February 2011 related to a sublease agreement. Williams alleges that Liberty was negligent in its attempt to convert certain salt caverns to natural gas storage and seeks damages of \$56.7 million. Liberty filed a counterclaim alleging breach of contract in the inducement and seeks damages of more than \$215 million.

Sempra Mexico

Sempra Mexico has been engaged in a long-running land dispute relating to property adjacent to its Energía Costa Azul LNG terminal near Ensenada, Mexico. The adjacent property is not required by environmental or other regulatory permits 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. In February 2011, based on a complaint by the claimant, the new Ensenada Mayor attempted to temporarily close the terminal based on claims of irregularities in municipal permits issued six years earlier. This attempt was promptly countermanded by Mexican federal and Baja

California state authorities. No terminal permits or operations were affected as a result of these proceedings or events and the terminal has continued to operate normally. Sempra Mexico expects additional Mexican court proceedings and governmental actions regarding the claimant's assertions as to whether the terminal's permits should be modified or revoked in any manner.

The property claimant also filed a lawsuit in July 2010 against Sempra Energy in Federal District Court in San Diego seeking compensatory and punitive damages as well as the earnings from the Energía Costa Azul LNG terminal based on his allegations that he was wrongfully evicted from the adjacent property and that he has been harmed by other allegedly improper actions.

Additionally, several administrative challenges are pending in Mexico before the Mexican environmental protection agency (SEMARNAT) and/or the Federal Tax and Administrative Courts seeking revocation of the environmental impact authorization (EIA) issued to Energía Costa Azul in 2003. These cases generally allege that the conditions and mitigation measures in the EIA are inadequate and challenge findings that the activities of the terminal are consistent with regional development guidelines. A similar administrative challenge seeking to revoke the port concession for our marine operations at our Energía Costa Azul LNG terminal, which was filed with and rejected by the Mexican Communications and Transportation ministry, remains on appeal in Mexican federal court as well. Also, there are two real property cases pending against Energía Costa Azul in which the plaintiffs seek to annul the recorded property titles for parcels on which the Energía Costa Azul LNG terminal is situated and to obtain possession of different parcels that allegedly sit in the same place. A third complaint was served in April 2013 seeking to invalidate the contract by which Energía Costa Azul, S. de R.L. de C.V. purchased another of the terminal parcels, on the grounds the purchase price was unfair. Sempra Mexico expects further proceedings on each of these matters.

In July 2012, a Mexicali state court issued a ruling declaring the purchase contract by which Termoeléctrica de Mexicali (TDM) acquired the property on which the facility is located to be invalid, on the grounds that the proceeding in which the seller acquired title was invalid. TDM has appealed the ruling, and it is not enforceable while the appeal is pending. In accordance with Mexican law, TDM remains in possession of the property, and its operations have not been affected.

In October 2012, a competitor for one of the two contracts awarded by the Mexican Federal Electricity Commission (Comisión Federal de Electricidad, or CFE) for the construction and operation of a natural gas pipeline in Sonora filed an amparo in the Mexican federal district court in Mexico City, challenging the tender process and the award to us. The competitor, a subsidiary of Fermaca, Sásabe Pipeline, S. de R.L. de C.V., filed suit against 11 different governmental authorities, including the CFE, the President of Mexico, and the Mexican Energy Ministry. Sásabe Pipeline, which was the second-place bidder, alleges CFE discriminated against it in the bidding process, including by failing to accept its comments on the bid guidelines. In February 2013, we were notified that Guaymas Pipeline S. de R. L. de C.V., another subsidiary of Fermaca, filed another, similar amparo challenging the process by which the second of the two contracts was awarded, although it did not submit a bid for the project. Both cases were dismissed in April 2013.

Other Litigation

As described in Note 4, we hold a noncontrolling interest in RBS Sempra Commodities, a limited liability partnership in the process of being liquidated. In March 2012, RBS received a letter from the United Kingdom's Revenue and Customs Department (HMRC) regarding a value-added-tax (VAT) matter related to RBS Sempra Energy Europe (RBS SEE), a former indirect subsidiary of RBS Sempra Commodities that was sold to JP Morgan. The letter states that HMRC is conducting a number of investigations into VAT tax refund claims made by various businesses related to the purchase and sale of carbon credit allowances. The letter also states that HMRC believes it has grounds to deny RBS the ability to reduce its VAT liability by VAT paid during 2009 because it knew or should have known that certain vendors in the trading chain did not remit their own VAT to HMRC. In September 2012, HMRC issued an

assessment of £86 million for the VAT paid in connection with these transactions and identified several options for responding, including requesting a review by HMRC and appealing to an independent tribunal. HMRC indicated that the assessment was issued on a protective basis as discussion about the issues is continuing.

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

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

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 \$12.2 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 \$47 million. This amount is subject to an annual maximum of \$7 million, unless a default occurs by any other SONGS owner. If the SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have \$2.75 billion of nuclear property, decontamination, and debris removal insurance. In addition, the SONGS owners have up to \$490 million insurance coverage for outage expenses and replacement power costs due to accidental property damage. This coverage is limited to \$3.5 million per week for the first 52 weeks, then \$2.8 million per week for up to 110 additional weeks. There is a 12-week waiting period deductible. These insurance coverages are provided through NEIL, a mutual insurance company. Insured members are subject to retrospective premium assessments. SDG&E could be assessed up to \$9.7 million.

The nuclear property insurance program includes an industry aggregate loss limit for non-certified acts of terrorism (as defined by the Terrorism Risk Insurance Act). The industry aggregate loss limit for property claims arising from non-certified acts of terrorism is \$3.24 billion. This is the maximum amount that will be paid to insured members who suffer losses or damages from these non-certified terrorist acts.

We provide additional information about SONGS in Note 9.

CONTRACTUAL COMMITMENTS

We discuss below significant changes in the first three months of 2013 to contractual commitments discussed in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Natural Gas Contracts

SoCalGas' natural gas purchase and pipeline capacity commitments have decreased by \$50 million since December 31, 2012. The decrease, primarily due to fulfillment of commitments in the first three months of 2013 of \$174 million, is partially offset by an increase of \$124 million from new natural gas purchase and pipeline capacity contracts. Net future payments are expected to decrease by \$64 million in 2013 and to increase by \$14 million in 2014 compared to December 31, 2012.

Sempra Natural Gas' natural gas purchase and storage capacity commitments have increased by \$35 million since December 31, 2012, primarily due to new storage capacity contracts in the first three months of 2013. Net future payments are expected to decrease by \$6 million in 2013, and increase by \$5 million in 2014, \$7 million in 2015, \$7 million in 2016, \$7 million in 2017 and \$15 million thereafter compared to December 31, 2012.

LNG Purchase Agreements

At March 31, 2013, Sempra Natural Gas has various purchase agreements with major international companies for the supply of LNG to the Energía Costa Azul and Cameron terminals. We discuss these agreements further in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report. Sempra Natural Gas' commitments under all LNG purchase agreements, reflecting changes in forward prices since December 31, 2012 and actual transactions for the first three months of 2013, are expected to decrease by \$70 million in 2013, increase by \$31 million in 2014 and \$14 million in 2015, and to decrease by \$4 million in 2016, \$13 million in 2017 and \$400 million thereafter compared to December 31, 2012.

The LNG commitment amounts above are based on Sempra Natural Gas' commitment to accept the maximum possible delivery of cargoes under the agreements. Actual LNG purchases for the three months ended March 31, 2013 have been significantly lower than the maximum amounts possible.

Purchased-Power Contracts

SDG&E's commitments under purchased-power contract commitments have increased by \$2.6 billion since December 31, 2012. The increase is primarily due to new contracts associated with renewable energy development projects. Net future payments are therefore expected to increase by \$41 million in 2013, \$107 million in 2014, \$107 million in 2015, \$108 million in 2016, \$108 million in 2017 and \$2.1 billion thereafter compared to December 31, 2012.

Operating Leases

Sempra Renewables entered into a land lease for the Copper Mountain Solar 3 project, which lease expires in 2050. Future payments on the lease are \$1 million in 2013, \$2 million each year in 2014 through 2017 and \$75 million thereafter.

Construction and Development Projects

In the first three months of 2013, significant increases to contractual commitments at Sempra Mexico were \$57 million for contracts related to their construction of an approximately 500-mile natural gas transport pipeline network.

The future payments under this contractual commitment are expected to be \$27 million in 2013, \$15 million in 2014 and \$15 million in 2015.

In the first three months of 2013, significant increases to contractual commitments at Sempra Renewables were \$33 million for the construction of Copper Mountain Solar 3 facilities. The future payments under this contractual commitment are expected to be \$30 million in 2013 and \$3 million in 2014.

Guarantees

In the first three months of 2013, Sempra Renewables provided additional guarantees to certain wind farm joint ventures aggregating a maximum of \$89 million with an associated aggregated carrying value of \$3 million for debt service and operation of the wind farms, as we discuss in Note 6.

Other

In February 2013, Sempra Natural Gas entered into a long-term operations and maintenance agreement for its remaining block of the Mesquite Power natural gas-fired power plant, which expires in 2033. The total cost associated with this agreement is estimated to be approximately \$36 million. The future payments for this contractual commitment are expected to be \$1 million in 2013, \$2 million each year in 2014 through 2017 and \$27 million thereafter. We provide additional information about Mesquite Power in Note 3.

NOTE 11. SEGMENT INFORMATION

We have six separately managed reportable segments, as follows:

1. SDG&E provides electric service to San Diego and southern Orange counties and natural gas service to San Diego County.
2. SoCalGas is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.
3. Sempra South American Utilities operates electric transmission and distribution utilities in Chile and Peru, and owns interests in utilities in Argentina. We are currently pursuing the sale of our interests in the Argentine utilities, which we discuss further in Note 4 above and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.
4. Sempra Mexico develops, owns and operates, or holds interests in, natural gas transmission pipelines and propane and ethane systems, a natural gas distribution utility, electric generation facilities (including wind), a terminal for the import of LNG, and marketing operations for the purchase of LNG and the purchase and sale of natural gas in Mexico.
5. Sempra Renewables develops, owns and operates, or holds interests in, wind and solar energy projects in Arizona, California, Colorado, Hawaii, Indiana, Kansas, Nevada and Pennsylvania to serve wholesale electricity markets in the United States.

6. Sempra Natural Gas develops, owns and operates, or holds interests in, a natural gas-fired electric generation asset, natural gas pipelines and storage facilities, natural gas distribution utilities and a terminal for the import and export of LNG and sale of natural gas, all within the United States.

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

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

During the fourth quarter of 2012, Sempra Mexico initiated a public debt offering process through one of its subsidiaries. We discuss this debt issuance, which occurred on February 14, 2013, in Note 6. The subsidiary issuing the debt, now IEnova, was previously included in Parent and Other. As a result of our anticipated debt issuance, we revised the manner in which we make resource allocation decisions to our Sempra Mexico segment and assess its performance. As a result, we have reclassified certain amounts from Parent and Other, which contains interest and other corporate costs and certain holding company activities, to our Sempra Mexico segment. Losses reclassified from Parent and Other to Sempra Mexico as a result of the restatement were \$4 million in the three months ended March 31, 2012. In accordance with U.S. GAAP, the historical segment disclosures have been restated to be consistent with the current presentation.

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 March 31,					
	2013			2012		
REVENUES						
SDG&E	\$	939	35 %	\$	834	35 %
SoCalGas		983	37		880	37
Sempra South American Utilities		384	15		357	15
Sempra Mexico		168	6		136	6
Sempra Renewables		21	1		8	
Sempra Natural Gas		253	10		269	11
Adjustments and eliminations					(1)	
Intersegment revenues(1)		(98)	(4)		(100)	(4)
Total	\$	2,650	100 %	\$	2,383	100 %
INTEREST EXPENSE						
SDG&E	\$	48		\$	36	
SoCalGas		17			17	
Sempra South American Utilities		7			10	
Sempra Mexico		2			3	
Sempra Renewables		8			4	
Sempra Natural Gas		23			20	
All other		63			58	

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Intercompany eliminations		(30)		(35)		
Total	\$	138		\$	113	
INTEREST INCOME						
SDG&E	\$	1		\$		
Sempra South American Utilities		5			4	
Sempra Mexico		1				
Sempra Renewables		3				
Sempra Natural Gas		11			11	
All other		(1)			1	
Intercompany eliminations		(14)			(11)	
Total	\$	6		\$	5	
DEPRECIATION AND AMORTIZATION						
SDG&E	\$	134	45 %	\$	112	44 %
SoCalGas		100	34		87	34
Sempra South American Utilities		15	5		13	5
Sempra Mexico		16	5		16	6
Sempra Renewables		8	3		3	1
Sempra Natural Gas		20	7		23	9
All other		2	1		3	1
Total	\$	295	100 %	\$	257	100 %
INCOME TAX EXPENSE (BENEFIT)						
SDG&E	\$	51		\$	60	
SoCalGas		24			40	
Sempra South American Utilities		17			13	
Sempra Mexico		26			35	
Sempra Renewables		(8)			(17)	
Sempra Natural Gas		33			2	
All other		35			(16)	
Total	\$	178		\$	117	

SEGMENT INFORMATION (Continued)
(Dollars in millions)

	Three months ended March 31,					
	2013		2012			
EQUITY EARNINGS (LOSSES)						
Earnings recorded before tax:						
Sempra Renewables	\$	1	\$	1		
Sempra Natural Gas		9		11		
Total	\$	10	\$	12		
Earnings (losses) recorded net of tax:						
Sempra South American Utilities	\$	(7)	\$			
Sempra Mexico		11		11		
Total	\$	4	\$	11		
EARNINGS (LOSSES)						
SDG&E(2)	\$	91	51 %	\$	105	45 %
SoCalGas(2)		46	26		66	28
Sempra South American Utilities		37	21		40	17
Sempra Mexico		31	17		33	14

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Sempra Renewables		4	2		10	4
Sempra Natural Gas		53	30		1	
All other		(84)	(47)		(19)	(8)
Total	\$	178	100 %	\$	236	100 %
EXPENDITURES FOR PROPERTY PLANT & EQUIPMENT						
SDG&E	\$	237	45 %	\$	398	49 %
SoCalGas		179	34		165	20
Sempra South American Utilities		22	4		19	2
Sempra Mexico		61	11		5	1
Sempra Renewables		6	1		201	25
Sempra Natural Gas		26	5		22	3
All other					1	
Total	\$	531	100 %	\$	811	100 %
		March 31, 2013			December 31, 2012	
ASSETS						
SDG&E	\$	14,852	40 %	\$	14,744	40 %
SoCalGas		9,223	24		9,071	25
Sempra South American Utilities		3,669	10		3,310	9
Sempra Mexico		3,314	9		2,591	7
Sempra Renewables		2,194	6		2,439	7
Sempra Natural Gas		5,971	16		5,145	14
All other		762	2		818	2
Intersegment receivables		(2,712)	(7)		(1,619)	(4)
Total	\$	37,273	100 %	\$	36,499	100 %
INVESTMENTS IN EQUITY METHOD INVESTEEES						
Sempra Mexico	\$	351		\$	340	
Sempra Renewables		601			592	
Sempra Natural Gas		348			361	
All other		126			134	
Total	\$	1,426		\$	1,427	

- (1) Revenues for reportable segments include intersegment revenues of: \$2 million, \$15 million, \$22 million and \$59 million for the three months ended March 31, 2013 and \$2 million, \$15 million, \$46 million and \$37 million for the three months ended March 31, 2012 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, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the Notes thereto contained in our 2012 Annual Report on Form 10-K (Annual Report) and "Risk Factors" contained in our Annual Report.

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

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 the context. All references to “Sempra International” and “Sempra U.S. Gas & Power,” and to their respective principal segments, are not intended to refer to any legal entity with the same or similar name.

In the first quarter of 2013, a Sempra Energy subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova), completed a private offering and concurrent public offering of common stock in Mexico. IEnova is a separate legal entity, formerly known as Sempra México, S.A. de C.V., comprised primarily of Sempra Energy’s operations in Mexico. IEnova is included within our Sempra Mexico reportable segment, but is not the same in its entirety as the reportable segment. In addition to the IEnova operating companies, the Sempra Mexico segment includes, among other things, certain holding companies and risk management activity. Also, IEnova’s financial results are reported in Mexico under IFRS, as required by the Mexican Stock Exchange (the Bolsa Mexicana de Valores, S.A.B. de C.V.) where the new shares are now traded under the symbol IENOVA. We discuss the offerings and IEnova further in Note 5 of the Notes to Condensed Consolidated Financial Statements herein.

During the fourth quarter of 2012, we revised the manner in which we make resource allocation decisions to our Sempra Mexico segment and assess its performance, as we discuss in Note 11 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 16 and 18 of the Notes to Consolidated Financial Statements in the Annual Report. As a result, we have reclassified certain amounts from Parent and Other, which contains interest and other corporate costs and certain holding company activities, to our Sempra Mexico segment. In accordance with accounting principles generally accepted in the United States (U.S. GAAP), our historical segment disclosures have been restated to be consistent with the current presentation. All discussions of our operating units and reportable segments reflect the revised segment information.

RBS Sempra Commodities LLP (RBS Sempra Commodities) is a joint venture partnership that held commodities-marketing businesses previously owned by us. We and The Royal Bank of Scotland plc (RBS), our partner in the joint venture, sold substantially all of the partnership’s businesses and assets in four separate transactions completed in 2010 and early 2011. We discuss these transactions and other matters concerning the partnership in Notes 4, 6 and 10 of the Notes to Condensed Consolidated Financial Statements herein. We account for our investment in RBS Sempra Commodities under the equity method and report our share of partnership earnings and other associated costs in Parent and Other.

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

SEMPRA ENERGY OPERATING UNITS AND REPORTABLE SEGMENTS

CALIFORNIA UTILITIES

	MARKET	SERVICE TERRITORY
SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) A regulated public utility; infrastructure supports electric generation, transmission and distribution, and natural gas distribution	§ Provides electricity to 3.4 million consumers (1.4 million meters) § Provides natural gas to 3.1 million consumers (860,000 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 21.1 million (5.8 million meters)	Southern California and portions of central California (excluding San Diego County, the city of Long Beach and the desert area of San Bernardino County) covering 20,000 square miles

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

We provide summary descriptions of our Sempra International and Sempra U.S. Gas & Power businesses below.

SEMPRA INTERNATIONAL

	MARKET	GEOGRAPHIC REGION
SEMPRA SOUTH AMERICAN UTILITIES Infrastructure supports electric transmission and distribution	§ Provides electricity to approximately 620,000 customers in Chile and more than 950,000 customers in Peru	§ Chile § Peru
SEMPRA MEXICO Develops, owns and operates, or holds interests in: § natural gas transmission pipelines and propane and ethane systems	§ Natural gas § Wholesale electricity § Liquefied natural gas	§ Mexico

§ a natural gas distribution utility

§ electric generation facilities, including wind

§ a terminal for the importation of liquefied natural gas (LNG)

§ marketing operations for the purchase of LNG and the purchase and sale of natural gas

SEMPRA U.S. GAS & POWER

	MARKET	GEOGRAPHIC REGION
SEMPRA RENEWABLES Develops, owns, operates, or holds interests in renewable energy generation projects	§ Wholesale electricity	§ U.S.A.
SEMPRA NATURAL GAS Develops, owns and operates, or holds interests in: § a natural gas-fired electric generation asset	§ Wholesale electricity § Natural gas § Liquefied natural gas	§ U.S.A.
§ natural gas pipelines and storage facilities		
§ natural gas distribution utilities		
§ a terminal in the U.S. for the import and export of LNG and sale of natural gas		
§ marketing operations		

RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

§ Overall results of our operations and factors affecting those results

§ Our segment results

§ Significant changes in revenues, costs and earnings between periods

Our earnings decreased by \$58 million (25%) to \$178 million in the three months ended March 31, 2013, while diluted earnings per share for the three-month period decreased by \$0.25 per share to \$0.72 per share.

The decrease in our earnings and diluted earnings per share for the three-month period was primarily due to:

- § higher losses at Parent and Other primarily due to \$63 million income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings; and
- § \$34 million lower earnings at our California Utilities primarily as a result of recording revenue based on their 2011 authorized revenue requirements due to the delay in the issuance of a final decision in the General Rate Cases (GRC), as we discuss in Note 9 of the Notes to Condensed Consolidated Financial Statements herein; offset by
- § improved earnings at Sempra Natural Gas mainly as a result of a \$44 million gain on the sale of one 625-megawatt (MW) block of its 1,250-MW Mesquite Power natural gas-fired power plant.

The following table shows our earnings (losses) by segment, which we discuss below in “Segment Results.”

SEMPRA ENERGY EARNINGS (LOSSES) BY SEGMENT (Dollars in millions)

	Three months ended March 31,					
	2013			2012		
California Utilities:						
SDG&E(1)	\$	91	51 %	\$	105	45 %
SoCalGas(1)		46	26		66	28
Sempra International:						
Sempra South American Utilities		37	21		40	17
Sempra Mexico		31	17		33	14
Sempra U.S. Gas & Power:						
Sempra Renewables		4	2		10	4
Sempra Natural Gas		53	30		1	
Parent and other(2)		(84)	(47)		(19)	(8)
Earnings	\$	178	100 %	\$	236	100 %

(1) After preferred dividends.

(2) Includes after-tax interest expense (\$38 million and \$34 million for the three months ended March 31, 2013 and 2012, respectively), intercompany eliminations recorded in consolidation and certain corporate costs.

SEGMENT RESULTS

The following section is a discussion of earnings (losses) by Sempra Energy segment, as presented in the table above. Variance amounts are the after-tax earnings impact, unless otherwise noted.

EARNINGS BY SEGMENT – CALIFORNIA UTILITIES (Dollars in millions)

SDG&E

Our SDG&E segment recorded earnings of:

§ \$91 million in the three months ended March 31, 2013 (\$92 million before preferred dividends)

§ \$105 million in the three months ended March 31, 2012 (\$106 million before preferred dividends)

The decrease of \$14 million (13%) in the three months ended March 31, 2013 was primarily due to:

§ \$17 million primarily from higher depreciation and operation and maintenance expenses related to California Public Utilities Commission (CPUC)-regulated operations (excluding litigation and legal settlements) with no corresponding increase in the CPUC-authorized margin in 2013 or 2012 due to the delay in the 2012 General Rate Case (GRC) decision;

§ \$7 million higher interest expense; and

§ \$5 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013; offset by

§ \$8 million reduction in 2013 income tax expense primarily due to a change made in the third quarter of 2012 in the income tax treatment of certain repairs expenditures for electric transmission and distribution assets that are capitalized for financial statement purposes, as we discuss below in "Income Taxes;"

§ \$5 million higher earnings related to Sunrise Powerlink; and

§ \$5 million higher electric transmission margin (excluding Sunrise Powerlink).

SoCalGas

Our SoCalGas segment recorded earnings of:

§ \$46 million in the three months ended March 31, 2013 (both before and after preferred dividends)

§ \$66 million in the three months ended March 31, 2012 (both before and after preferred dividends)

The decrease of \$20 million (30%) in the three months ended March 31, 2013 was primarily due to:

§ \$15 million primarily from higher operation and maintenance and depreciation expenses related to CPUC-regulated operations with no corresponding increase in the CPUC-authorized margin in 2013 or 2012 due to the delay in the 2012 GRC decision;

§ \$4 million regulatory award in 2012; and

§ \$3 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013; offset by

§ \$3 million from a lower effective tax rate, primarily from a change made in the fourth quarter of 2012 in the income tax treatment of certain repairs expenditures for gas assets that are capitalized for financial statement purposes, as we discuss below in “Income Taxes.”

EARNINGS BY SEGMENT – SEMPRA INTERNATIONAL
(Dollars in millions)

Sempra South American Utilities

Our Sempra South American Utilities segment recorded earnings of:

§ \$37 million in the three months ended March 31, 2013

§ \$40 million in the three months ended March 31, 2012

The decrease of \$3 million (8%) in the three months ended March 31, 2013 was primarily due to:

§ a \$7 million impairment charge related to our investment in two Argentine natural gas utility holding companies; offset by

§ \$3 million higher earnings from operations in 2013.

Sempra Mexico

Our Sempra Mexico segment recorded earnings of:

§ \$31 million in the three months ended March 31, 2013

§ \$33 million in the three months ended March 31, 2012

Earnings for the three months ended March 31, 2013 were consistent with the corresponding period in the prior year.

EARNINGS BY SEGMENT – SEMPRA U.S. GAS & POWER

(Dollars in millions)

Sempra Renewables

Our Sempra Renewables segment recorded earnings of:

§ \$4 million in the three months ended March 31, 2013

§ \$10 million in the three months ended March 31, 2012

The decrease of \$6 million in the three months ended March 31, 2013 was primarily due to:

§ \$12 million lower deferred income tax benefits, including \$5 million from Treasury Grant sequestration in 2013, related to higher investments in solar and wind generating assets in 2012; offset by

§ \$6 million higher production tax credits from our wind assets.

Sempra Natural Gas

Our Sempra Natural Gas segment recorded earnings of:

§ \$53 million in the three months ended March 31, 2013

§ \$1 million in the three months ended March 31, 2012

The increase of \$52 million in the three months ended March 31, 2013 was primarily due to:

§ \$44 million gain on the sale of a 625-MW block of its Mesquite Power plant, net of related expenses; and

§ \$9 million higher earnings from LNG, primarily due to timing of cargo marketing operations.

Parent and Other

Losses for Parent and Other were

§ \$84 million in the three months ended March 31, 2013

§ \$19 million in the three months ended March 31, 2012

The increase in losses of \$65 million in the three months ended March 31, 2013 was primarily due to \$63 million income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings.

CHANGES IN REVENUES, COSTS AND EARNINGS

This section contains a discussion of the differences between periods in the specific line items of the Condensed Consolidated Statements of Operations for Sempra Energy, SDG&E and SoCalGas.

Utilities Revenues

Our utilities revenues include

Natural gas revenues at:

§ SDG&E

§ SoCalGas

§ Sempra Mexico's Ecogas

§ Sempra Natural Gas' Mobile Gas and Willmut Gas

Electric revenues at:

§ SDG&E

§ Sempra South American Utilities' Chilquinta Energía and Luz del Sur

Intercompany revenues included in the separate revenues of each utility are eliminated in the Sempra Energy Condensed Consolidated Statements of Operations.

The California Utilities

The current regulatory framework for SoCalGas and SDG&E permits the cost of natural gas purchased for core customers (primarily residential and small commercial and industrial customers) to be passed through to customers in rates substantially as incurred. However, SoCalGas' Gas Cost Incentive Mechanism provides SoCalGas the

opportunity to share in the savings and/or costs from buying natural gas for its core customers at prices below or above monthly market-based benchmarks. This mechanism permits full recovery of costs incurred when average purchase costs are within a price range around the benchmark price. Any higher costs incurred or savings realized outside this range are shared between the core customers and SoCalGas. We provide further discussion in Note 9 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 1 and 14 of the Notes to Consolidated Financial Statements in the Annual Report.

The regulatory framework also permits SDG&E to recover the actual cost incurred to generate or procure electricity based on annual estimates of the cost of electricity supplied to customers. The differences in cost between estimates and actual are recovered in the next year through rates.

The table below summarizes revenues and cost of sales for our utilities, net of intercompany activity:

UTILITIES REVENUES AND COST OF SALES
(Dollars in millions)

	Three months ended March 31,	
	2013	2012
Electric revenues:		
SDG&E	\$ 772	\$ 671
Sempra South American Utilities	360	338
Eliminations and adjustments	(1)	(1)
Total	1,131	1,008
Natural gas revenues:		
SoCalGas	983	880
SDG&E	167	163
Sempra Mexico	27	23
Sempra Natural Gas	42	32
Eliminations and adjustments	(16)	(15)
Total	1,203	1,083
Total utilities revenues	\$ 2,334	\$ 2,091
Cost of electric fuel and purchased power:		
SDG&E	\$ 209	\$ 163
Sempra South American Utilities	238	225
Total	\$ 447	\$ 388
Cost of natural gas:		
SoCalGas	\$ 454	\$ 349
SDG&E	76	67
Sempra Mexico	16	13
Sempra Natural Gas	14	7
Eliminations and adjustments	(4)	(5)
Total	\$ 556	\$ 431

Sempra Energy Consolidated

Electric Revenues

During the three months ended March 31, 2013, our electric revenues increased by \$123 million (12%) to \$1.1 billion primarily due to:

§ \$101 million increase at SDG&E, including:

§ \$68 million higher authorized revenues from electric transmission, and

§ \$46 million increase in cost of electric fuel and purchased power, offset by

§ \$7 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013; and

§ \$22 million increase at our South American utilities primarily due to higher volumes and foreign currency exchange rate effects at both Luz del Sur and Chilquinta Energía.

Our utilities' cost of electric fuel and purchased power increased by \$59 million (15%) to \$447 million in the three months ended March 31, 2013 primarily due to:

§ \$46 million increase at SDG&E, including:

§ \$27 million due to the cost of power purchased to replace power scheduled to be generated and delivered to SDG&E from SONGS, and

§ \$19 million due to the incremental cost of renewable energy and other purchased power; and

§ \$13 million increase at our South American utilities driven by higher volumes and foreign currency exchange rate effects at both Luz del Sur and Chilquinta Energía.

We discuss the changes in electric revenues and the cost of electric fuel and purchased power for SDG&E in more detail below.

Natural Gas Revenues

During the three months ended March 31, 2013, Sempra Energy's natural gas revenues increased by \$120 million (11%) to \$1.2 billion, and the cost of natural gas increased by \$125 million (29%) to \$556 million. The increase in natural gas revenues included \$103 million at SoCalGas, primarily due to an increase in commodity costs and volumes in 2013, and \$10 million at Sempra Natural Gas primarily due to the consolidation of Willmut Gas, which we acquired in May 2012.

We discuss the changes in natural gas revenues and the cost of natural gas individually for SDG&E and SoCalGas below.

SDG&E: Electric Revenues and Cost of Electric Fuel and Purchased Power

The table below shows electric revenues for SDG&E for the three-month periods ended March 31, 2013 and 2012. Because the cost of electricity is substantially recovered in rates, changes in the cost are reflected in the changes in revenues.

ELECTRIC DISTRIBUTION AND TRANSMISSION
 (Volumes in millions of kilowatt-hours, dollars in millions)

Customer class	Three months ended March 31, 2013		Three months ended March 31, 2012	
	Volumes	Revenue	Volumes	Revenue
Residential	1,961	\$ 325	1,925	\$ 300
Commercial	1,588	231	1,655	220
Industrial	454	55	484	54
Direct access	835	31	752	32
Street and highway lighting	21	3	25	3
	4,859	645	4,841	609
Other revenues		100		48
Balancing accounts		27		14
Total(1)		\$ 772		\$ 671

(1) Includes sales to affiliates of \$1 million in 2013 and \$2 million in 2012.

During the three months ended March 31, 2013, electric revenues increased by \$101 million (15%) to \$772 million at SDG&E, primarily due to:

§ \$68 million higher authorized revenues from electric transmission including:

§ \$45 million from placing the Sunrise Powerlink transmission line in service in June 2012, and

§ \$23 million from increased investment in other transmission assets; and

§ \$46 million increase in cost of electric fuel and purchased power including:

§ \$27 million due to the cost of power purchased to replace power scheduled to be generated and delivered to SDG&E from SONGS, and

§ \$19 million due to the incremental cost of renewable energy and other purchased power; offset by

§ \$7 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013.

We do not include in the Condensed Consolidated Statements of Operations the commodity costs (and the revenues to recover those costs) associated with long-term contracts that are allocated to SDG&E by the California Department of Water Resources. However, we do include the associated volumes and distribution revenues in the table above. We provide further discussion of these contracts in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E and SoCalGas: Natural Gas Revenues and Cost of Natural Gas

The tables below show natural gas revenues for SDG&E and SoCalGas for the three-month periods ended March 31, 2013 and 2012. Because the cost of natural gas is recovered in rates, changes in the cost are reflected in the changes in revenues. In addition to the change in market prices, natural gas revenues recorded during a period are impacted by the difference between customer billings and recorded or CPUC-authorized costs. These differences are required to be balanced over time, resulting in over- and undercollected regulatory balancing accounts. We discuss balancing accounts and their effects further in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E

NATURAL GAS SALES AND TRANSPORTATION

(Volumes in billion cubic feet, dollars in millions)

Customer class	Natural Gas Sales		Transportation		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Three months ended March 31, 2013:						
Residential	13	\$ 133		\$ 1	13	\$ 134
Commercial and industrial	5	30	2	3	7	33
Electric generation plants			6	3	6	3
	18	\$ 163	8	\$ 7	26	170
Other revenues						10
Balancing accounts						(13)
Total(1)						\$ 167
Three months ended March 31, 2012:						
Residential	12	\$ 112		\$ 12	12	\$ 112
Commercial and industrial	5	26	2	3	7	29
Electric generation plants			8	2	8	2
	17	\$ 138	10	\$ 5	27	143
Other revenues						11
Balancing accounts						9
Total						\$ 163

(1) Includes sales to affiliates of \$1 million in 2013.

During the three months ended March 31, 2013, SDG&E's natural gas revenues increased by \$4 million (2%) to \$167 million, and the cost of natural gas sold increased by \$9 million (13%) to \$76 million.

SDG&E's average cost of natural gas for the three months ended March 31, 2013 was \$4.19 per thousand cubic feet (Mcf) compared to \$3.89 per Mcf for the corresponding period in 2012, an 8-percent increase of \$0.30 per Mcf, resulting in higher revenues and cost of \$5 million. The increase in the cost of natural gas sold was also attributable to higher volumes, which resulted in higher revenues and cost of \$4 million.

SOCALGAS

NATURAL GAS SALES AND TRANSPORTATION

(Volumes in billion cubic feet, dollars in millions)

Customer class	Natural Gas Sales		Transportation		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Three months ended March 31, 2013:						
Residential	91	\$ 771	1	\$ 3	92	\$ 774
Commercial and industrial	31	203	72	60	103	263
Electric generation plants			38	9	38	9
Wholesale			49	7	49	7
	122	\$ 974	160	\$ 79	282	1,053
Other revenues						26

Balancing accounts						(96)
Total(1)					\$	983
Three months ended March 31, 2012:						
Residential	88 \$	692	1 \$	2	89 \$	694
Commercial and industrial	29	185	69	62	98	247
Electric generation plants			44	9	44	9
Wholesale			47	7	47	7
	117 \$	877	161 \$	80	278	957
Other revenues						27
Balancing accounts						(104)
Total(1)					\$	880

(1) Includes sales to affiliates of \$15 million in both 2013 and 2012.

During the three months ended March 31, 2013, SoCalGas' natural gas revenues increased by \$103 million (12%) to \$983 million, and the cost of natural gas sold increased by \$105 million (30%) to \$454 million.

SoCalGas' average cost of natural gas for the three months ended March 31, 2013 was \$3.70 per Mcf compared to \$2.97 per Mcf for the corresponding period in 2012, a 25-percent increase of \$0.73 per Mcf, resulting in higher revenues and cost of \$89 million. The increase in the cost of natural gas sold was also attributable to higher volumes, which resulted in higher revenues and cost of \$16 million.

Other Utilities: Revenues and Cost of Sales

Revenues generated by Chilquinta Energía and Luz del Sur are based on tariffs that are set by government agencies in their respective countries based on an efficient model distribution company defined by those agencies. The basis for the tariffs do not meet the requirement necessary for treatment under applicable U.S. GAAP for regulatory accounting. We discuss revenue recognition further for Chilquinta Energía and Luz del Sur in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Operations of Mobile Gas, Willmut Gas and Ecogas qualify for regulatory accounting treatment under applicable U.S. GAAP, similar to the California Utilities.

The table below summarizes natural gas and electric revenues for our utilities outside of California for the three-month periods ended March 31, 2013 and 2012:

OTHER UTILITIES

NATURAL GAS AND ELECTRIC REVENUES

(Dollars in millions)

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	Volumes	Revenue	Volumes	Revenue
Natural Gas Sales (billion cubic feet):				
Sempra Mexico — Ecogas	6 \$	27	6 \$	23
Sempra Natural Gas:				
Mobile Gas	11	34	12	32
Willmut Gas(1)	1	8		
Total	18 \$	69	18 \$	55

Electric Sales (million kilowatt hours):

Sempra South American Utilities:

Luz del Sur	1,746 \$	204	1,690 \$	187
Chilquinta Energía	761	141	745	139
	2,507	345	2,435	326
Other service revenues		15		12
Total	\$	360	\$	338

(1) We acquired Willmut Gas in May 2012.

Energy-Related Businesses: Revenues and Cost of Sales

The table below shows revenues and cost of sales for our energy-related businesses.

ENERGY-RELATED BUSINESSES: REVENUES AND COST OF SALES

(Dollars in millions)

		Three months ended March 31,	
		2013	2012
Energy-related businesses revenues:			
Sempra South American Utilities	\$	24 \$	19
Sempra Mexico		141	113
Sempra Renewables		21	8
Sempra Natural Gas		211	237
Intersegment revenues, adjustments and eliminations(1)		(81)	(85)
Total energy-related businesses revenues	\$	316 \$	292
Cost of natural gas, electric fuel and purchased power(2):			
Sempra Mexico	\$	59 \$	41
Sempra Renewables		2	1
Sempra Natural Gas(3)		130	171
Adjustments and eliminations(1)(3)		(80)	(84)
Total cost of natural gas, electric fuel and purchased power	\$	111 \$	129
Other cost of sales(2):			
Sempra South American Utilities	\$	19 \$	10
Sempra Mexico		9	1
Sempra Natural Gas(3)		23	22
Adjustments and eliminations(1)(3)		(3)	
Total other cost of sales	\$	48 \$	33

(1) Includes eliminations of intercompany activity.

(2) Excludes depreciation and amortization, which are shown separately on the Condensed Consolidated Statements of Operations.

(3) Prior year amounts have been reclassified to conform to the current year presentation.

During the three months ended March 31, 2013, revenues from our energy-related businesses increased by \$24 million (8%) to \$316 million. The increase included

§ \$28 million increase at Sempra Mexico primarily due to higher prices and volumes for both natural gas and power; and

§ \$13 million increase at Sempra Renewables mainly from revenues generated by our solar assets; offset by

§ \$26 million decrease at Sempra Natural Gas primarily due to lower revenues as a result of the energy management agreement (EMA) with Sempra Mexico and lower power production at Mesquite Power, a portion of which was due to the sale of one 625-MW block of the natural gas-fired power plant, offset by increased natural gas revenues from its LNG operations as a result of higher natural gas prices and volumes.

We provide further discussion of the EMA in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report.

During the three months ended March 31, 2013, the cost of natural gas, electric fuel and purchased power for our energy-related businesses decreased by \$18 million (14%) to \$111 million. The decrease was primarily due to:

§ \$41 million decrease at Sempra Natural Gas primarily due to lower costs associated with the EMA with Sempra Mexico and lower natural gas costs and volumes as a result of lower power production at Mesquite Power, as discussed above, offset by increased natural gas costs from its LNG operations as a result of higher natural gas prices and volumes; offset by

§ \$18 million increase at Sempra Mexico primarily due to higher natural gas prices and volumes.

Operation and Maintenance

Sempra Energy Consolidated

For the three months ended March 31, 2013, our operation and maintenance expenses increased by \$53 million (8%) to \$724 million, primarily due to increases at our California Utilities.

SDG&E

For the three months ended March 31, 2013, SDG&E’s operation and maintenance expenses increased by \$29 million (11%) to \$297 million primarily due to:

§ \$21 million higher other operation and maintenance costs; and

§ \$13 million higher operation and maintenance expenses at Otay Mesa VIE; offset by

§ \$6 million lower expenses incurred for activities and programs that are fully recovered in revenue (recoverable expenses).

SoCalGas

For the three months ended March 31, 2013, operation and maintenance expenses at SoCalGas increased by \$17 million (6%) to \$306 million primarily due to:

§ \$21 million higher other operation and maintenance costs; offset by

§ \$4 million lower recoverable expenses.

Gain on Sale of Asset

In February 2013, Sempra Natural Gas completed the sale of one 625-MW block of its Mesquite Power natural gas-fired power plant to the Salt River Project Agricultural Improvement and Power District for \$371 million, resulting in a pretax gain on sale of the asset of \$74 million.

Other Income, Net

Sempra Energy Consolidated

For the three months ended March 31, 2013, other income, net, decreased by \$38 million (51%) to \$37 million primarily due to:

§ \$19 million decrease in equity-related AFUDC at SDG&E primarily due to completion of construction on the Sunrise Powerlink project in June 2012;

§ \$9 million lower gains from investment activity related to our executive retirement and deferred compensation plans in 2013; and

§ \$4 million lower gains on interest rate and foreign exchange instruments.

Income Taxes

The table below shows the income tax expense and effective income tax rates for Sempra Energy, SDG&E and SoCalGas.

INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES

(Dollars in millions)

	Three months ended March 31,			
	2013		2012	
	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income Tax Rate
Sempra Energy Consolidated	\$ 178	51 %	\$ 117	33 %
SDG&E	51	39	60	35
SoCalGas	24	34	40	38

Sempra Energy Consolidated

The increase in income tax expense in the three months ended March 31, 2013 was primarily due to a higher effective income tax rate, which was mainly due to:

§ \$63 million income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings. We discuss the stock offerings further in Note 5 of the Notes to Condensed Consolidated Financial Statements herein; offset by

§ lower income tax expense due to Mexican currency translation and inflation adjustments; and

§ income tax benefit in 2013 resulting from changes made in the second half of 2012 in the income tax treatment of certain repairs expenditures that are capitalized for financial statement purposes. The change in income tax treatment of certain repairs expenditures for electric transmission and distribution assets was made pursuant to an Internal Revenue Service (IRS) Revenue Procedure providing a safe harbor for deducting certain repairs expenditures from taxable income when incurred for tax years beginning on or after January 1, 2011. The change in income tax treatment of certain repairs expenditures for gas plant assets was made pursuant to an IRS Revenue Procedure which allows, under an Internal Revenue Code (IRC) section, for such expenditures to be deducted from taxable income when incurred.

As noted in “Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report, we were planning to repatriate a portion of future earnings beginning in 2013 from certain of our non-U.S. subsidiaries in Mexico and Peru. Due to the income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings, which we discuss further in Note 5 of the Notes to Condensed Consolidated Financial Statements herein, we are now planning to make a distribution in 2013 of approximately \$200 million from our non-U.S. subsidiaries. This distribution will be from previously taxed income and will not be subject to additional U.S. federal income tax. We now plan to repatriate a portion of future earnings beginning in 2014 from our subsidiaries in Mexico and Peru. Currently, all future repatriated earnings would be subject to U.S. income tax (with a credit for foreign income taxes) and future repatriation from Peru would be subject to local country withholding tax. Because this potential repatriation would only be from future earnings, it does not change our current assertion that we intend to continue to indefinitely reinvest our cumulative undistributed non-U.S. earnings through December 31, 2013.

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 are factored into the forecasted effective tax rate and their impact is spread proportionately over the year. The forecasted items, anticipated on a full year basis, may include, among others, self-developed software expenditures, repairs to certain utility plant fixed assets, renewable energy income tax credits, deferred income tax benefits related to renewable energy projects, exclusions from taxable income of the equity portion of AFUDC, and depreciation on a certain portion of utility plant assets. Items that cannot be reliably forecasted (e.g., adjustments related to prior years’ income tax items, Mexican currency translation and inflation adjustments, and deferred income tax benefit associated with the impairment of a book investment, etc.) are recorded in the interim period in which they actually occur, which can result in variability to income tax expense.

In 2013, we anticipate that Sempra Energy Consolidated’s effective income tax rate will be approximately 29% compared to 6% in 2012. This increase is primarily due to a forecasted increase in pretax book income and because we are not currently anticipating any similar one-time events as occurred in 2012. In addition, we are forecasting a lower favorable impact of renewable energy income tax credits and deferred income tax benefits related to renewable energy projects, a lower favorable impact of self-developed software expenditures and a lower favorable impact of repairs expenditures that are capitalized for financial statement purposes.

In the years 2014 through 2017, we anticipate that Sempra Energy Consolidated’s effective income tax rate will range from 28% to 32% primarily due to a forecasted increase in pretax book income, a lower favorable impact of renewable

energy income tax credits and deferred income tax benefits related to renewable energy projects, and a lower favorable impact of self-developed software expenditures and repairs expenditures that are capitalized for financial statement purposes.

SDG&E

The decrease in SDG&E's income tax expense in the three months ended March 31, 2013 was primarily due to lower pretax income, offset by the impact of a higher effective income tax rate. The higher effective income