

SAN DIEGO GAS & ELECTRIC CO  
 Form 10-Q  
 August 06, 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 June 30, 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

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

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 August 2, 2013:

Sempra Energy	244,248,233 shares
San Diego Gas & Electric Company	Wholly owned by Enova Corporation, which is wholly owned by Sempra Energy
Southern California Gas Company	Wholly owned by Pacific Enterprises, which is wholly owned by Sempra Energy

SEMPRA ENERGY FORM 10-Q  
 SAN DIEGO GAS & ELECTRIC COMPANY FORM 10-Q  
 SOUTHERN CALIFORNIA GAS COMPANY FORM 10-Q  
 TABLE OF CONTENTS

	Page
Information Regarding Forward-Looking Statements	4
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	75
Item 3. Quantitative and Qualitative Disclosures About Market Risk	113
Item 4. Controls and Procedures	114
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	115
Item 1A. Risk Factors	115
Item 6. Exhibits	117
 Signatures	 119

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 s

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, Atomic Safety and Licensing Board, California Energy Commission, California Air Resources Board, and other regulatory, governmental and environmental bodies in the United States and other countries in which we operate;

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

§ 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, equipment failures and the decommissioning of San Onofre Nuclear Generating Station (SONGS);

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

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

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

§ wars, terrorist attacks and cybersecurity threats;

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

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

§ the impact on reliability of 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 most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

## PART I – FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(unaudited)			
<b>REVENUES</b>				
Utilities	\$ 2,332	\$ 1,838	\$ 4,666	\$ 3,929
Energy-related businesses	319	251	635	543
Total revenues	2,651	2,089	5,301	4,472
<b>EXPENSES AND OTHER INCOME</b>				
Utilities:				
Cost of natural gas	(365)	(221)	(921)	(652)
Cost of electric fuel and purchased power	(477)	(349)	(924)	(737)
Energy-related businesses:				
Cost of natural gas, electric fuel and purchased power	(94)	(81)	(205)	(210)
Other cost of sales	(49)	(41)	(97)	(74)
Operation and maintenance	(740)	(727)	(1,464)	(1,398)
Depreciation and amortization	(247)	(266)	(542)	(523)
Franchise fees and other taxes	(81)	(79)	(187)	(175)
Loss from plant closure	(200)		(200)	
Gain on sale of assets		7	74	7
Equity earnings (losses), before income tax	8	(293)	18	(281)
Other income, net	26	18	63	93
Interest income	4	4	10	9
Interest expense	(138)	(113)	(276)	(226)

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Income (losses) before income taxes and equity earnings					
of certain unconsolidated subsidiaries	298	(52)	650	305	
Income tax (expense) benefit	(32)	118	(210)	1	
Equity earnings, net of income tax	1	8	5	19	
Net income	267	74	445	325	
Earnings attributable to noncontrolling interests	(21)	(11)	(19)	(24)	
Preferred dividends of subsidiaries	(1)	(1)	(3)	(3)	
Earnings	\$ 245	\$ 62	\$ 423	\$ 298	
Basic earnings per common share	\$ 1.00	\$ 0.26	\$ 1.74	\$ 1.24	
Weighted-average number of shares outstanding, basic (thousands)	243,603	241,141	243,449	240,853	
Diluted earnings per common share	\$ 0.98	\$ 0.25	\$ 1.70	\$ 1.21	
Weighted-average number of shares outstanding, diluted (thousands)	248,515	246,260	248,279	245,766	
Dividends declared per share of common stock	\$ 0.63	\$ 0.60	\$ 1.26	\$ 1.20	

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,					
	2013			2012		
	(unaudited)					
	Sempra Energy	Non-controlling Interests	Total	Sempra Energy	Non-controlling Interests	Total
Net income	\$ 246	\$ 21	\$ 267	\$ 63	\$ 11	\$ 74
Other comprehensive income (loss), net of income tax:						
Foreign currency translation adjustments	134	(20)	114	(33)	(1)	(34)
Net actuarial gain	1		1	4		4
Financial instruments	23	15	38	(9)	(9)	(18)
Total other comprehensive income (loss)	158	(5)	153	(38)	(10)	(48)
Total comprehensive income	404	16	420	25	1	26
Preferred dividends of subsidiaries	(1)		(1)	(1)		(1)
Total comprehensive income, after preferred dividends of subsidiaries	\$ 403	\$ 16	\$ 419	\$ 24	\$ 1	\$ 25
	Six months ended June 30,					
	2013			2012		
	(unaudited)					
	Sempra Energy	Non-controlling Interests	Total	Sempra Energy	Non-controlling Interests	Total

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Net income	\$	426	\$	19	\$	445	\$	301	\$	24	\$	325
Other comprehensive income (loss), net of income tax:												
Foreign currency translation adjustments		144		(24)		120		34		3		37
Net actuarial gain		4				4		5				5
Financial instruments		9		18		27		(6)		(9)		(15)
Total other comprehensive income (loss)		157		(6)		151		33		(6)		27
Total comprehensive income		583		13		596		334		18		352
Preferred dividends of subsidiaries		(3)				(3)		(3)				(3)
Total comprehensive income, after preferred dividends of subsidiaries	\$	580	\$	13	\$	593	\$	331	\$	18	\$	349

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2013 (unaudited)	December 31, 2012(1)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 954	\$ 475
Restricted cash	89	46
Trade accounts receivable, net	1,007	1,146
Other accounts and notes receivable, net	154	153
Income taxes receivable	129	56
Deferred income taxes	76	148
Inventories	357	408
Regulatory balancing accounts – undercollected	325	395
Regulatory assets	190	62
Fixed-price contracts and other derivatives	81	95
U.S. Treasury grants receivable	164	258
Asset held for sale, power plant		296
Other	135	157
Total current assets	3,661	3,695
<b>Investments and other assets:</b>		
Restricted cash	22	22
Regulatory assets arising from pension and other postretirement benefit obligations	1,170	1,151
Regulatory assets arising from wildfire litigation costs	352	364
Other regulatory assets	1,872	1,227
Nuclear decommissioning trusts	938	908
Investments	1,466	1,516
Goodwill	1,042	1,111

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Other intangible assets	431	436
Sundry	895	878
Total investments and other assets	8,188	7,613
Property, plant and equipment:		
Property, plant and equipment	33,728	33,528
Less accumulated depreciation and amortization	(8,557)	(8,337)
Property, plant and equipment, net (\$452 and \$466 at June 30, 2013 and December 31, 2012, respectively, related to VIE)	25,171	25,191
Total assets	\$ 37,020	\$ 36,499
(1)	Derived from audited financial statements.	
See Notes to Condensed Consolidated Financial Statements.		

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

	June 30, 2013 (unaudited)	December 31, 2012(1)
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 510	\$ 546
Accounts payable – trade	959	976
Accounts payable – other	114	134
Dividends and interest payable	271	266
Accrued compensation and benefits	235	337
Regulatory balancing accounts – overcollected	290	141
Current portion of long-term debt	1,540	725
Fixed-price contracts and other derivatives	71	77
Customer deposits	142	143
Reserve for wildfire litigation	182	305
Other	411	608
Total current liabilities	4,725	4,258
Long-term debt (\$330 and \$335 at June 30, 2013 and December 31, 2012, respectively, related to VIE)	10,530	11,621
Deferred credits and other liabilities:		
Customer advances for construction	140	144
Pension and other postretirement benefit obligations, net of plan assets	1,471	1,456
Deferred income taxes	2,389	2,100
Deferred investment tax credits	44	46
Regulatory liabilities arising from removal obligations	2,842	2,720
Asset retirement obligations	1,949	2,033
Fixed-price contracts and other derivatives	237	252



Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Deferred credits and other	1,066	1,107
Total deferred credits and other liabilities	10,138	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 June 30, 2013 and December 31, 2012, respectively; no par value)	2,366	2,217
Retained earnings	8,557	8,441
Accumulated other comprehensive income (loss)	(219)	(376)
Total Sempra Energy shareholders' equity	10,704	10,282
Preferred stock of subsidiary	20	20
Other noncontrolling interests	824	381
Total equity	11,548	10,683
Total liabilities and equity	\$ 37,020	\$ 36,499
(1) Derived from audited financial statements.		
See Notes to Condensed Consolidated Financial Statements.		

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

	Six months ended June 30,	
	2013	2012
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 445	\$ 325
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	542	523
Deferred income taxes and investment tax credits	251	(53)
Gain on sale of assets	(74)	(7)
Loss from plant closure	200	
Equity (earnings) losses	(23)	262
Fixed-price contracts and other derivatives	(28)	1
Other	1	8
Net change in other working capital components	20	28
Changes in other assets	(237)	13
Changes in other liabilities	8	52
Net cash provided by operating activities	1,105	1,152
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(1,130)	(1,517)
	(5)	(303)

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Expenditures for investments and acquisition of business, net of cash acquired		
Proceeds from sale of assets and investment	384	9
Proceeds from U.S. Treasury grants	74	
Distributions from investments	95	31
Purchases of nuclear decommissioning and other trust assets	(330)	(327)
Proceeds from sales by nuclear decommissioning and other trusts	326	329
Decrease in restricted cash	143	68
Increase in restricted cash	(186)	(61)
Other	2	(10)
Net cash used in investing activities	(627)	(1,781)

CASH FLOWS FROM FINANCING ACTIVITIES

Common dividends paid	(299)	(260)
Preferred dividends paid by subsidiaries	(3)	(3)
Issuances of common stock	22	45
Repurchases of common stock	(45)	(16)
Issuances of debt (maturities greater than 90 days)	894	1,167
Payments on debt (maturities greater than 90 days)	(1,134)	