

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

FORM 10-Q

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

For the quarterly period ended March 31, 1996

Commission file number 1-1402

SOUTHERN CALIFORNIA GAS COMPANY

(Exact name of registrant as specified in its charter)

California

95-1240705

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

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

(Address of principal executive offices)
(Zip Code)

(213) 244-1200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

The number of shares of common stock outstanding on March 31, 1996 was 91,300,000.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
 CONDENSED STATEMENT OF CONSOLIDATED INCOME
 (Thousands of Dollars)

	Three Months Ended March 31	
	1996	1995
	----- (Unaudited)	
Operating Revenues	\$619,840	\$604,690
Operating Expenses:		
Cost of gas distributed	249,967	231,690
Operation and maintenance	156,773	169,541
Depreciation	60,327	58,978
Income taxes	44,366	40,935
Other taxes and franchise payments	29,466	30,274
Total	540,899	531,418
Net Operating Revenue	78,941	73,272
Other Income and (Deductions):		
Interest income	318	1,597
Regulatory interest	552	1,637
Allowance for equity funds used during construction	1,700	635
Income taxes on non-operating income	(19)	184
Other - net	(1,518)	(1,734)
Total	1,033	2,319
Interest Charges and (Credits):		
Interest on long-term debt	20,551	22,256
Other interest	3,415	2,653
Allowance for borrowed funds used during construction	(978)	(367)
Total	22,988	24,542
Net Income	56,986	51,049
Dividends on Preferred Stock	2,807	2,928
Net Income Applicable to Common Stock	\$ 54,179	\$ 48,121
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS
(Thousands of Dollars)

	March 31 1996 ----- (Unaudited)	December 31 1995 -----
Utility Plant	\$5,841,825	\$5,807,940
Less accumulated depreciation	2,647,625 -----	2,594,713 -----
Utility plant - net	3,194,200 -----	3,213,227 -----
Current Assets:		
Cash and cash equivalents	45,236	12,611
Accounts and notes receivable (less allowance for doubtful receivables of \$16,256 in 1996 and \$13,456 in 1995)	418,256	398,515
Regulatory accounts receivable	101,064	260,573
Deferred income taxes	37,087	25,953
Gas in storage	3,508	54,782
Materials and supplies	14,995	14,504
Prepaid expenses	18,217 -----	32,593 -----
Total current assets	638,363 -----	799,531 -----
Regulatory Assets	441,143 -----	449,521 -----
Total	\$4,273,706 =====	\$4,462,279 =====

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET
CAPITALIZATION AND LIABILITIES
(Thousands of Dollars)

	March 31 1996 ----- (Unaudited)	December 31 1995 -----
Capitalization:		
Common equity:		
Common stock	\$ 834,889	\$ 834,889
Retained earnings	608,279	613,445
	-----	-----
Total common equity	1,443,168	1,448,334
Preferred stock	146,551	196,551
Long-term debt	1,200,737	1,220,136
	-----	-----
Total capitalization	2,790,456	2,865,021
	-----	-----
Current Liabilities:		
Short-term debt	83,817	233,817
Accounts payable	314,349	418,570
Accounts payable-affiliates	20,699	9,734
Accrued taxes and franchise payments	121,976	45,933
Long-term debt due within one year	95,283	95,283
Accrued interest	53,734	43,480
Other accrued liabilities	77,360	50,678
	-----	-----
Total current liabilities	767,218	897,495
	-----	-----
Deferred Credits:		
Customer advances for construction	46,715	47,029
Deferred income taxes	421,404	404,308
Deferred investment tax credits	66,236	66,983
Other deferred credits	181,677	181,443
	-----	-----
Total deferred credits	716,032	699,763
	-----	-----
Total	\$4,273,706	\$4,462,279
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
 CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS
 (Thousands of Dollars)

	Three Months Ended March 31	
	1996	1995
	-----	-----
	(Unaudited)	
Cash Flows From Operating Activities:		
Net income	\$ 56,986	\$ 51,049
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	60,327	58,978
Deferred income taxes	3,795	7,396
Other	(61)	(1,355)
Net change in other working capital components	230,567	278,733
	-----	-----
Net cash provided by operating activities	351,614	394,801
	-----	-----
Cash Flows from Investing Activities:		
Expenditures for utility plant	(42,066)	(39,765)
Decrease in other assets	2,679	13,456
	-----	-----
Net cash used in investing activities	(39,387)	(26,309)
	-----	-----
Cash Flows from Financing Activities:		
Dividends paid	(60,203)	(33,970)
Decrease in long-term debt	(19,399)	(11,267)
Decrease in short-term debt	(150,000)	(194,384)
Redemption of preferred stock	(50,000)	
	-----	-----
Net cash used in financing activities	(279,602)	(239,621)
	-----	-----
Increase in Cash and Cash Equivalents	32,625	128,871
Cash and Cash Equivalents, January 1	12,611	57,531
	-----	-----
Cash and Cash Equivalents, March 31	\$ 45,236	\$ 186,402
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid (refunded) during the period:		
Interest (net of amount capitalized)	\$ 11,864	\$ 26,381
	=====	=====
Income Taxes	\$ (22,782)	\$ 56,243
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements have been prepared in accordance with the interim period reporting requirements of Form 10-Q. Reference is made to the Form 10-K for the year ended December 31, 1995 for additional information.

Results of operations for interim periods are not necessarily indicative of results for the entire year. In order to match revenues and costs for interim reporting purposes, the Southern California Gas Company (Company) defers revenue related to costs which are expected to be incurred later in the year. In the opinion of management, the accompanying statements reflect all adjustments which are necessary for a fair presentation. These adjustments are of a normal recurring nature. Certain changes in account classification have been made in the prior years' consolidated financial statements to conform to the 1995 financial statement presentation.

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

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements contained in this Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 1995 Form 10-K.

Southern California Gas Company (Company) is a subsidiary of Pacific Enterprises (Parent). The Company, a public utility, provides natural gas distribution, transmission and storage in a 23,000-square-mile service area in southern California and part of central California. Company markets are separated into core customers and noncore customers. Core customers consist of approximately 4.7 million customers (4.5 million residential and 200,000 small commercial and industrial customers). The noncore market consists of approximately 1,600 large customers which include 8 utility electric generation, 3 wholesale, and the remainder large commercial and industrial customers. The Company is regulated by the California Public Utilities Commission (CPUC). It is the responsibility of the CPUC to determine that utilities operate in the best interest of the customers with the opportunity to earn a reasonable return on investment.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 1996 increased by \$5.9

million compared to the same period in 1995. The Company's earnings increased primarily due to lower operating expenses including a \$5.6 million after-tax settlement from a group of gas producers for damages incurred to Company and customer equipment resulting from impure gas supplies, and partially offset by the decrease in authorized rate of return on common equity to 11.6 percent in 1996 from 12.0 percent in 1995.

Operating revenues for the three months ended March 31, 1996 increased \$15 million when compared to the same period in 1995. Cost of gas distributed for the three months ended March 31, 1996 increased \$18 million when compared to the same period in 1995. In 1996, the average unit cost of gas increased slightly as a result of higher market prices for gas purchased for core customers resulting in increased revenue from 1995 levels. Under the current regulatory framework, changes in revenue resulting from changes in core volumes and cost of gas delivered to the core market do not affect net income. Noncore volumes and revenues decreased in the UEG market from the levels in 1995 due to the availability of inexpensive hydrogenerated electricity. This has not impacted net income because noncore revenue was not below the levels used in accounting for the effects of the 1993 Comprehensive Settlement.

Operation and maintenance expense for the three months ended March 31, 1996, decreased \$13 million when compared to the same period in 1995. The decrease is primarily due to the \$9.5 million pre-tax (\$5.6 million after-tax) settlement from gas producers (described above).

RECENT CPUC REGULATORY ACTIVITY

Under the Gas Cost Incentive Mechanism (GCIM), the Company can recover all costs in excess of the benchmark to the extent they fall within a tolerance band which extends to 4 percent above the benchmark. If the Company's cost of gas exceeds the tolerance level, then the excess costs are shared equally between customers and shareholders. All savings from gas purchased below the benchmark are shared equally between customers and shareholders. For the second year of the program ended March 31, 1996, gas purchase costs were below the benchmark.

The Company enters into gas futures contracts in the open market on a limited basis. The Company's intention is to use gas futures contracts to mitigate risk and better manage gas costs. The CPUC has approved the use of gas futures for managing risk associated with the GCIM.

FACTORS INFLUENCING FUTURE PERFORMANCE. Under current ratemaking policies, future Company net income and cash flow will be determined primarily by the allowed rate of return on common equity, changes to authorized ratebase, noncore market pricing and the variance in gas volumes delivered to noncore customers versus CPUC-adopted forecast deliveries and the ability of management to control expenses and investment in line with the amounts

authorized by the CPUC to be collected in rates.

Future regulatory restructuring, increased competitiveness in the industry (including the continuing threat of customers bypassing the Company's system and obtaining service directly from interstate pipelines) and the electric industry restructuring could also affect the Company's future performance. The Company has filed a "Performance Based Regulation" (PBR) application with the CPUC to replace the general ratecase and certain other regulatory proceedings. This new approach would maintain cost based rates, but would link financial performance with changes in productivity. If approved, PBR would be implemented some time after January 1, 1997.

In 1995, the CPUC issued a decision to restructure California electric utility regulation. While there is no immediate effect on operations, future volumes of natural gas transported by SoCalGas for the electric utilities could be adversely affected by increased use of electricity generated by out-of-state producers.

The Company's earnings for 1996 will be affected by the decrease in the authorized rate of return on common equity, reflecting the overall decrease in cost of capital. For 1996, the Company is authorized to earn a rate of return on ratebase of 9.42 percent and a rate of return on common equity of 11.60 percent compared to 9.67 percent and 12.00 percent, respectively, in 1995. A change in return on equity of 1 percent (100 basis points) impacts net income by approximately \$13 million. The CPUC has also authorized an increase in the equity component of the Company's capital structure to 47.4 percent in 1996 from 47.0 percent in 1995. The 40 basis point increase in the equity component should add between \$1 million to \$2 million to earnings. Rate base is expected to decline slightly from the level in 1995.

The Company's earnings for 1996 will continue to be favorably impacted by the completion of a realignment of the Company into two business units effective July 1995. Improvements in earnings that would otherwise result from these cost savings will be partially offset by the 3 percent productivity adjustment for 1996 authorized by the CPUC.

As discussed in the 1995 Form 10-K, existing interstate pipeline capacity into California exceeds current demand by over 1 billion cubic feet per day. However, the Federal Energy Regulatory Commission (FERC) has approved a settlement with Transwestern which calls for firm customers, including the Company, to subsidize unsubscribed pipeline costs for a five-year period with Transwestern assuming full responsibility after that time. A settlement was also reached with El Paso, in which customers, including the Company, will pay for a portion of the unused capacity. The customers may also receive credits from El Paso for unused capacity sold. The settlement is for a ten-year period and is awaiting approval by the FERC.

Most field, clerical and technical employees of the Company are represented by the Utility Workers' Union of America or the International Chemical

Workers' Union. Agreements covering these approximately 5,200 employees relating to benefits expired in 1995 and an agreement covering wages, hours and working conditions expired on March 31, 1996. Negotiations related to new contracts are ongoing.

For additional information, see the discussion under the caption "Management Discussion and Analysis - Factors Influencing Future Performance" in the Company's 1995 Form 10-K.

CAPITAL EXPENDITURES. For the three months ended March 31, 1996 and 1995, capital expenditures were \$42 and \$40 million, respectively. Capital expenditures for utility plant are expected to be \$225 million in 1996 and will be financed primarily by internally-generated funds.

LIQUIDITY

Regulatory accounts receivable decreased \$160 million reflecting the recovery through rates of amounts undercollected in prior years. As a result of earnings and collections on regulatory accounts receivable, the cash flows generated were available for additional cash requirements, primarily the payment of dividends to the Parent, repayment of commercial paper and repurchase of preferred stock.

During the first quarter, the Company redeemed \$50 million of Series A Flexible Auction preferred stock. The Company also redeemed the remaining \$50 million of Flexible Auction preferred stock (Series C) in April 1996.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) There were no reports of Form 8-K filed during the quarter ended March 31, 1996.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN CALIFORNIA GAS COMPANY

(Registrant)

/s/ Ralph Todaro

Ralph Todaro
Vice President and Controller
(Chief Accounting Officer and
duly authorized signatory)

Date: May 7, 1996

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

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SOUTHERN CALIFORNIA GAS COMPANY

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3,194,200		
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638,363		
441,143		
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1,443,168	608,279	
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540,899		
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		1,033
79,974		
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