

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, 1995

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 April 28, 1995 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	
	----- 1995	----- 1994
	----- (Unaudited)	
Operating Revenues	\$604,690	\$689,154
Operating Expenses:		
Cost of gas distributed	231,690	354,087
Operation and maintenance	169,541	146,062
Depreciation	58,978	57,640
Income taxes	40,935	32,798
Other taxes and franchise payments	30,274	30,969
Total	----- 531,418	----- 621,556
Net Operating Revenue	----- 73,272	----- 67,598
Other Income and (Deductions):		
Interest income	1,597	278
Regulatory interest	1,637	1,064
Allowance for equity funds used during construction	635	713
Income taxes on non-operating income	184	247
Other - net	(1,734)	(1,461)
Total	----- 2,319	----- 841
Interest Charges and (Credits):		
Interest on long-term debt	22,256	22,257
Other interest	2,653	2,639
Allowance for borrowed funds used during construction	(367)	(406)
Total	----- 24,542	----- 24,490
Net Income	----- 51,049	----- 43,949
Dividends on Preferred Stock	2,928	2,440
Net Income Applicable to Common Stock	----- \$ 48,121	----- \$ 41,509
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

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

	March 31 1995	December 31 1994
	----- (Unaudited)	-----
Utility Plant	\$5,645,643	\$5,613,013
Less accumulated depreciation	2,451,732	2,400,601
	-----	-----
Utility plant - net	3,193,911	3,212,412
	-----	-----
Current Assets:		
Cash and cash equivalents	186,402	57,531
Accounts and notes receivable - net	402,402	523,975
Regulatory accounts receivable	125,015	360,479
Gas in storage	8,203	63,470
Materials and supplies	25,505	25,792
Prepaid expenses	25,910	34,129
	-----	-----
Total current assets	773,437	1,065,376
	-----	-----
Regulatory Assets	480,708	497,975
	-----	-----
Total	\$4,448,056	\$4,775,763
	=====	=====

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 1995 ----- (Unaudited)	December 31 1994 -----
Capitalization:		
Common equity:		
Common stock	\$ 834,889	\$ 834,889
Retained earnings	660,119	643,040
	-----	-----
Total common equity	1,495,008	1,447,929
Preferred stock	196,551	196,551
Long-term debt	1,386,046	1,396,931
	-----	-----
Total capitalization	3,077,605	3,071,411
	-----	-----
Current Liabilities:		
Short-term debt	83,817	278,201
Accounts payable	311,018	409,462
Accounts payable-affiliates	13,932	35,013
Accrued taxes and franchise payments	108,916	117,576
Deferred income taxes	36,161	40,792
Long-term debt due within one year	86,000	86,000
Accrued interest	37,619	40,057
Other accrued liabilities	104,796	109,150
	-----	-----
Total current liabilities	782,259	1,116,251
	-----	-----
Deferred Credits:		
Customer advances for construction	43,203	44,269
Deferred income taxes	343,012	341,149
Deferred investment tax credits	69,222	69,969
Other deferred credits	132,755	132,714
	-----	-----
Total deferred credits	588,192	588,101
	-----	-----
Total	\$4,448,056	\$4,775,763
	=====	=====

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	
	1995	1994
	(Unaudited)	
Cash Flows From Operating Activities:		
Net income	\$ 51,049	\$ 43,949
Items not requiring cash	65,019	48,756
Net change in other working capital components	278,733	111,066
	394,801	203,771
Cash Flows from Investing Activities:		
Expenditures for utility plant	(39,765)	(39,601)
(Increase)decrease in other assets	13,456	(24,952)
	(26,309)	(64,553)
Cash Flows from Financing Activities:		
Dividends	(33,970)	(30,809)
Issuance of long-term debt	(11,267)	
Decrease in short-term debt	(194,384)	(89,221)
	(239,621)	(120,030)
Increase in Cash and Cash Equivalents	128,871	19,188
Cash and Cash Equivalents - January 1	57,531	14,533
	\$186,402	\$ 33,721
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest (net of amount capitalized)	\$ 26,381	\$ 20,820
	=====	=====
Income taxes	\$ 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, 1994 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 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.

2. ENVIRONMENTAL OBLIGATIONS

The Company has identified and reported to California environmental authorities 42 former manufactured gas plant sites for which it (together with other utilities as to 21 of these sites) may have environmental obligations under environmental laws. As of March 31, 1995, eight of these sites have been remediated, of which five have received certification from the California Environmental Protection Agency. Preliminary investigations, at a minimum, have been completed on 39 of the gas plant sites, including those sites at which the remediations described above have been completed. In addition, the Company has been named as a potentially responsible party of one landfill site and three industrial waste disposal sites.

On May 4, 1994, the CPUC approved a collaborative settlement between the Company and other California energy utilities and the Division of Ratepayer Advocates that provides for rate recovery of 90 percent of environmental investigation and remediation costs without reasonableness review. In addition, the utilities have the opportunity to retain a percentage of any insurance recoveries to offset the 10 percent of costs not recovered in rates.

At March 31, 1995, the Company's estimated remaining investigation and remediation liability was approximately \$65 million which it is authorized to recover through the mechanism discussed above. The estimated liability is subject to future adjustment pending further investigation. The Company believes that any costs not ultimately recovered through rates, insurance or other means, upon giving effect to previously established liabilities, will

not have a material adverse effect on the Company's financial statements.

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

Southern California Gas Company (the 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 parts of central California. SoCalGas 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 smaller commercial and industrial customers). The noncore market consists of approximately 1,200 customers which primarily include utility electric generation, wholesale and large commercial and industrial customers. Many noncore customers are sensitive to the price relationship between natural gas and alternate fuels, and are capable of readily switching from one fuel to another, subject to air quality regulations. 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 ratepayers with the opportunity to earn a reasonable return on investment. Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Consolidated Financial Statements and the Company's Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 1995 increased by \$7 million compared to 1994. The increase in net income was due primarily to the increase in the authorized rate of return on common equity from 11.0 percent in 1994 to 12.0 percent in 1995 and lower operating expenses and capital expenditures in 1995 from the amounts authorized in the most recent general rate case decision as adjusted for 1995 attrition allowances.

Operating revenues and cost of gas distributed for the three months ended March 31, 1995 decreased \$84 million and \$122 million, respectively compared to the same period in 1994. The decreases reflect lower volumes of gas sold to core customers in 1995 and a decrease in the average unit cost of gas. Core volumes decreased as a result of warmer weather in 1995 compared to 1994. The average unit cost of gas declined as a result of lower market prices. Under the current regulatory framework, changes in revenue resulting from changes in volumes in the core market and cost of gas do not affect net income.

RECENT CPUC REGULATORY ACTIVITY

General rate applications are filed every three years. In a general rate case, the CPUC establishes a margin, which is the amount of revenue authorized to be collected from customers to recover authorized operating expenses (other than the cost of gas), depreciation, interest, taxes and return on rate base. Rate adjustments from the Company's next general rate case proceeding would normally be scheduled to go into effect in 1997, however, the Company filed a petition for modification with the CPUC in 1994 to delay the proceeding and is exploring a new approach for setting rates to its customers. Known as "Performance Based Ratemaking"(PBR), this new method would link financial performance with productivity improvements and generally would allow for rates to increase by the rate of inflation, less an agreed-upon percentage for productivity improvements. On April 26, 1995, the CPUC approved the Company's petition for modification subject to certain conditions including a PBR application being filed with the CPUC no later than June 30, 1995. If approved by the CPUC, PBR would be implemented in 1997 at the earliest.

On March 16, 1994, the CPUC approved a new process for evaluating the Company's gas purchases, substantially replacing the previous process of reasonableness reviews. The new Gas Cost Incentive Mechanism (GCIM) is a three-year pilot program that began on April 1, 1994. The GCIM essentially compares the Company's cost of gas with a benchmark level, which is the average market price of 30-day firm spot supplies delivered to the Company's service areas.

All savings from gas purchased below the benchmark are shared equally between ratepayers and shareholders. The Company can recover all costs in excess of the benchmark that are within a tolerance band. If the Company's cost of gas exceeds the tolerance band, then the excess costs are shared equally between ratepayers and shareholders. For the first year of the program, the GCIM provides a 4.5 percent tolerance band above the benchmark. For the second and third years of the program, the tolerance band decreases to 4 percent. For the first full year ended March 31, 1995, the Company's gas costs, including gains and losses from gas futures contracts discussed below, were within the tolerance band.

The Company enters into gas futures contracts in the open market on a limited basis to help reduce gas costs within the GCIM tolerance band. The Company's policy 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 earnings and cash flow will be determined primarily by the allowed rate of return on common equity, the growth in rate base, noncore 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.

The impact of any future regulatory restructuring, such as Performance Based Ratemaking, increased competitiveness in the industry, including the continuing threat of customers bypassing the Company's system and obtaining service directly from interstate pipelines, and electric industry restructuring could also affect the Company's future performance. The Company's ability to report as earnings the results from revenues in excess of its authorized return from noncore customers due to volume increases has been substantially eliminated for the five years beginning August 1, 1994 as a consequence of the restructuring of high-cost gas contracts that was approved by the CPUC last July (the Comprehensive Settlement). This is because certain forecasted levels of gas deliveries in excess of the 1991 throughput levels used to establish noncore rates were contemplated in estimating the costs of the Comprehensive Settlement in prior years.

The Company's earnings for 1995 will be affected by the increase in the authorized rate of return on common equity, reflecting the overall increase in cost of capital. For 1995, the Company is authorized to earn a rate of return on rate base of 9.67 percent and a rate of return on common equity of 12.00 percent compared to 9.22 percent and 11.00 percent, respectively, in 1994. Rate base is expected to remain at the same level as 1994.

The Company's earnings for the third and fourth quarters of 1995 and all of 1996 will be favorably impacted by the completion of a realignment of the Company into two business units in July 1995. A significant amount of the after-tax savings will not be realized until 1996, the first full year following the realignment. The anticipated savings are partially offset by the 2 percent and 3 percent productivity adjustments for 1995 and 1996, respectively, authorized by the CPUC, under the terms of the 1994 Comprehensive Settlement.

Existing interstate pipeline capacity into California exceeds current demand by over 1 billion cubic feet per day. Up to 2 billion cubic feet per day of capacity on the El Paso and Transwestern interstate pipeline systems representing over \$175 million and \$55 million, respectively, of reservation charges annually, may be relinquished within the next few years based on existing contract reduction options and contract expirations. Some of this capacity may not be resubscribed. Current FERC regulation could permit the cost of unsubscribed capacity to be allocated to remaining firm service customers, including the Company. Under existing regulation in California, the Company would have the opportunity to include its portion of any such reallocated costs in its rates. If competitive conditions did not support higher rates resulting from these reallocated costs, then the Company would be at risk for lost revenues in the noncore market.

The Company, as a part of a coalition of customers who hold 90 percent of the firm transportation capacity rights on the El Paso and Transwestern systems, has offered a proposal for negotiated rates with balanced incentives to El

Paso and Transwestern to resolve the issue of unsubscribed capacity. In March 1995, a Principles of Agreement consistent with the coalition's proposal was finalized with Transwestern. The agreement is subject to the signatories (which includes the Company) and Transwestern finalizing a definitive settlement to be submitted to the FERC during the second quarter of 1995, with approval expected by the end of 1995. A similar proposal was offered to and rejected by El Paso. The Coalition (including the Company) is currently evaluating other alternatives available to it for resolving the issue of unsubscribed capacity with El Paso.

The Company's operations and those of its customers are affected by a growing number of environmental laws and regulations. These laws and regulations affect current operations as well as future expansion. Historically, environmental laws favorably impacted the use of natural gas in the Company's service territory, particularly by utility electric generation and large industrial customers. However, increasingly complex administrative requirements may discourage natural gas use by commercial and industrial customers. Environmental laws also require clean up of facilities no longer in use. Because of current and expected rate recovery, the Company believes that compliance with these laws will not have a significant impact on its financial statements. For further discussion of regulatory and environmental matters, see Note 2 of Notes to Condensed Consolidated Financial Statements.

CAPITAL EXPENDITURES. For the three months ended March 31, 1995, capital expenditures were \$40 million. Capital expenditures for utility plant are expected to be \$250 million in 1995 and will be financed primarily by internally-generated funds.

LIQUIDITY

Regulatory accounts receivable decreased \$235 million reflecting the recovery through increased operating revenues above amounts authorized in current rates of prior undercollections under the regulatory account procedures. As a result, the cash flows generated were available for additional cash requirements, which were primarily utilized for the repayment of short-term debt of approximately \$194 million. The decrease in gas in storage inventories of \$55 million was primarily due to the seasonal withdrawals required to meet the Company's winter demand.

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, 1995 were as follows:

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)

Ralph Todaro

Ralph Todaro
Vice President-Finance and Controller
(Principal Accounting Officer and duly
authorized signatory)

Date: May 12, 1995

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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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