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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2008  
Commission file number 1-14201

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SEMPRA ENERGY

(Exact name of registrant as specified in its charter)

California

33-0732627

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification No.)

101 Ash Street, San Diego, California 92101

(Address of principal executive offices)  
(Zip Code)

(619) 696-2034

(Registrant's telephone number, including area code)

No Change

(Former name, former address and former fiscal year,  
if changed since last report)

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           

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes            No     X    

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

Common stock outstanding on July 31, 2008: 246,378,369

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## INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains statements that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "estimates," "believes," "expects," "anticipates," "plans," "intends," "may," "could," "would" and "should" or similar expressions, or discussions of strategy or of plans are intended to identify forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in these forward-looking statements.

Forward-looking statements are necessarily based upon various assumptions involving judgments with respect to the future and other risks, including, among others, local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments; actions by the California Public Utilities Commission, the California State Legislature, the California Department of Water Resources, the Federal Energy Regulatory Commission, the Federal Reserve Board, the U.K. Financial Services Authority and other regulatory bodies in the United States and other countries; capital markets conditions, inflation rates, interest rates and exchange rates; energy and trading markets, including the timing and extent of changes in commodity prices; the availability of electric power, natural gas and liquefied natural gas; weather conditions and conservation efforts; war and terrorist attacks; business, regulatory, environmental and legal decisions and requirements; the status of deregulation of retail natural gas and electricity delivery; the timing and success of business development efforts; the resolution of litigation; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the company. Readers are cautioned not to rely unduly on any forward-looking statements and are urged to review and consider carefully the risks, uncertainties and other factors which affect the company's business described in this report and other reports filed by the company from time to time with the Securities and Exchange Commission.

PART I. FINANCIAL INFORMATION  
ITEM I. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEMPRA ENERGY  
STATEMENTS OF CONSOLIDATED INCOME

(Dollars in millions, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(unaudited)			
<b>REVENUES</b>				
Sempra Utilities	\$ 1,887	\$ 1,620	\$ 4,177	\$ 3,679
Sempra Global and parent	616	1,041	1,596	1,986
Total revenues	<u>2,503</u>	<u>2,661</u>	<u>5,773</u>	<u>5,665</u>
<b>EXPENSES AND OTHER INCOME</b>				
Sempra Utilities:				
Cost of natural gas	(784)	(603)	(2,019)	(1,653)
Cost of electric fuel and purchased power	(220)	(163)	(383)	(312)
Sempra Global and parent:				
Cost of natural gas, electric fuel and purchased power	(513)	(278)	(922)	(614)
Other cost of sales	(17)	(221)	(153)	(540)
Operation and maintenance	(549)	(747)	(1,252)	(1,382)
Depreciation and amortization	(171)	(171)	(346)	(340)
Franchise fees and other taxes	(71)	(68)	(154)	(149)
Gains on sale of assets	109	4	114	6
Equity earnings (losses):				
RBS Sempra Commodities LLP	146	--	146	--
Other	9	(6)	15	(12)
Other income, net	17	51	36	68
Interest income	10	24	24	50
Interest expense	(38)	(66)	(98)	(136)
Preferred dividends of subsidiaries	(3)	(3)	(5)	(5)
Income from continuing operations before income taxes and equity earnings of certain unconsolidated subsidiaries	428	414	776	646
Income tax expense	(202)	(143)	(329)	(206)
Equity earnings, net of income tax	18	9	39	67
Income from continuing operations	<u>244</u>	<u>280</u>	<u>486</u>	<u>507</u>
Discontinued operations, net of income tax	--	(3)	--	(2)
Net income	<u>\$ 244</u>	<u>\$ 277</u>	<u>\$ 486</u>	<u>\$ 505</u>
<b>Basic earnings per share:</b>				
Income from continuing operations	\$ 0.99	\$ 1.08	\$ 1.93	\$ 1.95
Discontinued operations, net of income tax	--	(0.01)	--	(0.01)
Net income	<u>\$ 0.99</u>	<u>\$ 1.07</u>	<u>\$ 1.93</u>	<u>\$ 1.94</u>
Weighted-average number of shares outstanding (thousands)	<u>245,576</u>	<u>260,198</u>	<u>252,100</u>	<u>259,830</u>
<b>Diluted earnings per share:</b>				
Income from continuing operations	\$ 0.98	\$ 1.06	\$ 1.90	\$ 1.92
Discontinued operations, net of income tax	--	(0.01)	--	(0.01)
Net income	<u>\$ 0.98</u>	<u>\$ 1.05</u>	<u>\$ 1.90</u>	<u>\$ 1.91</u>
Weighted-average number of shares outstanding (thousands)	<u>249,677</u>	<u>264,963</u>	<u>256,169</u>	<u>264,518</u>
Dividends declared per share of common stock	<u>\$ 0.35</u>	<u>\$ 0.31</u>	<u>\$ 0.67</u>	<u>\$ 0.62</u>

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY  
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	June 30, 2008	December 31, 2007 *
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 230	\$ 668
Short-term investments	413	--
Restricted cash	--	1
Trade accounts receivable, net	849	960
Other accounts and notes receivable, net	148	114
Income taxes receivable	180	99
Deferred income taxes	147	247
Trading-related receivables and deposits, net	--	2,719
Derivative trading instruments	--	2,170
Commodities owned	--	2,231
Inventories	125	224
Regulatory assets	39	106
Fixed-price contracts and other derivatives	285	28
Other	94	397
Total current assets	2,510	9,964
Investments and other assets:		
Regulatory assets arising from fixed-price contracts and other derivatives	274	309
Regulatory assets arising from pension and other postretirement benefit obligations	166	162
Other regulatory assets	497	460
Nuclear decommissioning trusts	685	739
Investment in RBS Sempra Commodities LLP	1,985	--
Other investments	1,261	1,243
Sundry	806	956
Total investments and other assets	5,674	3,869
Property, plant and equipment:		
Property, plant and equipment	21,633	20,917
Less accumulated depreciation and amortization	(6,062)	(6,033)
Property, plant and equipment, net	15,571	14,884
Total assets	\$ 23,755	\$ 28,717

See Notes to Condensed Consolidated Financial Statements.

\* As adjusted for the retrospective adoption of FASB Staff Position FIN 39-1.

SEMPRA ENERGY  
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	June 30, 2008	December 31, 2007 *
	(unaudited)	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 829	\$ 1,064
Accounts payable - trade	719	1,374
Accounts payable - other	160	189
Due to unconsolidated affiliates	54	60
Trading-related payables	--	2,265
Derivative trading instruments	--	1,672
Commodities sold with agreement to repurchase	--	500
Dividends and interest payable	145	145
Regulatory balancing accounts, net	604	481
Current portion of long-term debt	302	7
Fixed-price contracts and other derivatives	317	53
Other	1,146	1,210
Total current liabilities	<u>4,276</u>	<u>9,020</u>
Long-term debt	<u>4,809</u>	<u>4,553</u>
Deferred credits and other liabilities:		
Due to unconsolidated affiliate	102	102
Customer advances for construction	153	153
Pension and other postretirement benefit obligations, net of plan assets	433	434
Deferred income taxes	668	531
Deferred investment tax credits	59	61
Regulatory liabilities arising from removal obligations	2,516	2,522
Asset retirement obligations	1,148	1,129
Other regulatory liabilities	250	265
Fixed-price contracts and other derivatives	312	332
Deferred credits and other	958	949
Total deferred credits and other liabilities	<u>6,599</u>	<u>6,478</u>
Preferred stock of subsidiaries	<u>179</u>	<u>179</u>
Minority interests	<u>209</u>	<u>148</u>
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock (50 million shares authorized; none issued)	--	--
Common stock (750 million shares authorized; 246 million and 261 million shares outstanding at June 30, 2008 and December 31, 2007, respectively; no par value)	2,240	3,198
Retained earnings	5,780	5,464
Deferred compensation	(20)	(22)
Accumulated other comprehensive income (loss)	(317)	(301)
Total shareholders' equity	<u>7,683</u>	<u>8,339</u>
Total liabilities and shareholders' equity	<u>\$ 23,755</u>	<u>\$ 28,717</u>

See Notes to Condensed Consolidated Financial Statements.

\* As adjusted for the retrospective adoption of FASB Staff Position FIN 39-1.

SEMPRA ENERGY  
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)	Six months ended June 30,	
	2008	2007
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 486	\$ 505
Adjustments to reconcile net income to net cash provided by operating activities:		
Discontinued operations	--	2
Depreciation and amortization	346	340
Deferred income taxes and investment tax credits	51	(39)
Equity earnings	(200)	(55)
Gains on sale of assets	(114)	(6)
Fixed-price contracts and other derivatives	62	(28)
Other	40	18
Net change in other working capital components	226	918
Changes in other assets	(10)	33
Changes in other liabilities	(27)	(10)
Net cash provided by continuing operations	860	1,678
Net cash used in discontinued operations	--	(3)
Net cash provided by operating activities	860	1,675
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(1,114)	(889)
Proceeds from sale of assets, net of cash sold	2,071	61
Expenditures for investments	(2,180)	(5)
Distributions from investments	16	--
Purchases of nuclear decommissioning and other trust assets	(173)	(341)
Proceeds from sales by nuclear decommissioning and other trusts	177	300
Decrease in notes receivable from unconsolidated affiliates	60	--
Dividends received from unconsolidated affiliates	--	4
Other	(15)	(9)
Net cash used in investing activities	(1,158)	(879)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Common dividends paid	(166)	(152)
Issuances of common stock	11	28
Repurchases of common stock	(1,002)	--
Increase in short-term debt, net	496	374
Issuance of long-term debt	593	4
Payments on long-term debt	(73)	(654)
Other	1	7
Net cash used in financing activities	(140)	(393)
Increase (decrease) in cash and cash equivalents	(438)	403
Cash and cash equivalents, January 1	668	920
Cash assumed in connection with FIN 46(R) consolidation	--	29
Cash and cash equivalents, June 30	\$ 230	\$ 1,352

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY  
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)	Six months ended June 30,	
	2008	2007
	(unaudited)	
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest payments, net of amounts capitalized	\$ 157	\$ 135
Income tax payments, net of refunds	\$ 140	\$ 191
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY</b>		
Increase (decrease) in accounts payable from investments in property, plant and equipment	\$ (62)	\$ 60
Fair value of stock received for services rendered	\$ --	\$ 32
Fair value of stock received for sale of investments	\$ --	\$ 26

See Notes to Condensed Consolidated Financial Statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. GENERAL

#### Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of Sempra Energy (the company), a California-based Fortune 500 holding company, its consolidated subsidiaries and a variable interest entity of which it is the primary beneficiary. Sempra Energy's principal subsidiaries are San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) (collectively referred to as the Sempra Utilities) and Sempra Global, which is the holding company for Sempra Commodities, Sempra Generation, Sempra Pipelines & Storage, Sempra LNG and other, smaller businesses. Investments in affiliated companies (primarily RBS Sempra Commodities LLP (RBS Sempra Commodities)) over which Sempra Energy has the ability to exercise significant influence, but not control, are accounted for using the equity method. On April 1, 2008, substantially all of the company's commodity-marketing businesses were sold to RBS Sempra Commodities, a partnership of the company and The Royal Bank of Scotland (RBS). Additional information regarding the transaction is provided in Note 3.

#### Basis of Presentation

The Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (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. 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.

Information in this Quarterly Report should be read in conjunction with the company's Annual Report on Form 10-K for the year ended December 31, 2007 (the Annual Report) and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.

The company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. The same accounting policies are followed for interim reporting purposes, except for the adoption of new accounting standards as discussed in Note 2.

The Sempra Utilities account for the economic effects of regulation on utility operations in accordance with Statement of Financial Accounting Standards (SFAS) 71, *Accounting for the Effects of Certain Types of Regulation*.

### NOTE 2. NEW ACCOUNTING STANDARDS

Recently issued pronouncements that have had or may have a significant effect on the company's financial statements are described below.

**SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS 161):** SFAS 161 expands the disclosure requirements in Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on



derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The company is in the process of evaluating the effect of this statement on its financial statement disclosures.

**FASB Staff Position (FSP) FIN 39-1, "Amendment of FASB Interpretation No. 39" (FSP FIN 39-1):** FSP FIN 39-1 amends certain paragraphs of FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, to permit a reporting entity to offset fair value amounts recognized for the right to reclaim or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007. The company adopted FSP FIN 39-1 effective January 1, 2008. The company applied FSP FIN 39-1 as a change in accounting principle through retrospective application. Each consolidated balance sheet herein reflects the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when management believes a legal right of setoff exists. Accordingly, December 31, 2007 amounts have been reclassified to conform to this presentation. Additional disclosure is provided in Note 6.

**FSP Emerging Issues Task Force (EITF) 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP EITF 03-6-1):** FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are required to be included in the computation of earnings per share (EPS) under the two-class method described in FASB Statement No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. All prior-period EPS data are to be adjusted retrospectively to conform with the provisions of this FSP. Early application is not permitted. The company does not expect the adoption of FSP EITF 03-6-1 to have a material impact on its EPS.

### NOTE 3. INVESTMENT IN UNCONSOLIDATED ENTITIES

#### RBS Sempra Commodities

On April 1, 2008, Sempra Energy and RBS completed the formation of RBS Sempra Commodities, a partnership of the company and RBS to own and operate the commodity-marketing businesses previously operated through wholly owned subsidiaries of Sempra Energy. The company's initial equity contribution to the partnership was \$1.6 billion. RBS made an initial equity contribution of \$1.665 billion and is committed to provide any additional funding required for the ongoing operations of the partnership's businesses. As a result of the transaction, the company received approximately \$1.2 billion in cash, net of the contribution and including cash withdrawn from the businesses in anticipation of the transaction, and recorded an after-tax gain of \$67 million, which is subject to final closing adjustments.

The company accounts for its investment in RBS Sempra Commodities under the equity method. The company's share of partnership earnings is reported in the Sempra Commodities segment. Subject to certain limited exceptions, partnership pretax income is allocated each year as follows:

- The company receives a preferred 15-percent return on its adjusted equity capital;
- RBS receives a preferred 15-percent return on any capital in excess of capital attributable to Sempra Energy that is required by the U.K. Financial Services Authority to be maintained by RBS in respect of the operations of the partnership;

- The company receives 70 percent of the next \$500 million in pretax income, with RBS receiving the remaining 30 percent;
- The company receives 30 percent, and RBS 70 percent, of any remaining pretax income; and
- Any losses of the partnership are shared equally between the company and RBS.

Because the partnership was formed on April 1, 2008, the annual allocation of its earnings will be prorated for three-fourths of 2008. For the three months ended June 30, 2008, the company recorded \$146 million of equity earnings from RBS Sempra Commodities, before income tax. The partnership income that is distributable to the company is allocated on the partnership's basis of accounting, International Financial Reporting Standards (IFRS) as adopted by the European Union. This distributable income, on an IFRS basis, for the three months and six months ended June 30, 2008 is \$165 million.

Summarized income statement information for RBS Sempra Commodities, on a GAAP basis, is as follows (in millions):

	Three and six months ended June 30, 2008	
Gross revenues and fee income	\$	538
Gross profit	\$	517
Income from continuing operations	\$	254
Partnership net income	\$	254

The company has indemnified the partnership for certain litigation and tax liabilities related to the businesses purchased by the partnership. The fair value of these guarantees is \$5 million.

Information regarding the Sempra Commodities segment at June 30, 2008 and December 31, 2007 and for the three and six months ending June 30, 2008 and 2007 is provided in Note 9. Additional information concerning this transaction is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

#### **NOTE 4. OTHER FINANCIAL DATA**

##### **Otay Mesa Energy Center**

SDG&E has a 10-year agreement to purchase power to be generated at the Otay Mesa Energy Center, a 573-megawatt (MW) generating facility currently under construction and expected to be in commercial operation in the fourth quarter of 2009. As defined in FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities - an interpretation of ARB No. 51* (FIN 46(R)), the facility owner, Otay Mesa Energy Center LLC, is a variable interest entity (Otay Mesa VIE), of which SDG&E is the primary beneficiary. Accordingly, the company has consolidated Otay Mesa VIE beginning in the second quarter of 2007. Its equity of \$194 million and \$135 million as of June 30, 2008 and December 31, 2007, respectively, is classified as Minority Interest on the Consolidated Balance Sheets.

## Available-for-Sale Securities

During the six months ended June 30, 2008, Sempra Energy and SDG&E purchased \$252 million and \$161 million, respectively, of industrial development bonds. The bonds are classified as available-for-sale securities and included in Short-Term Investments on the Consolidated Balance Sheets at June 30, 2008.

Interest rates on these securities are reset by remarketing agents on a weekly basis at rates intended to permit the bonds to be remarketed at par. The bonds were initially issued as insured, auction-rate securities, the proceeds of which were loaned to SDG&E, and are repaid with payments from SDG&E first mortgage bonds that have terms corresponding to those of the industrial development bonds that they secure. SDG&E intends to modify the credit support and liquidity requirements of the bonds in conjunction with their subsequent remarketing to investors.

## Goodwill

As a result of the formation of RBS Sempra Commodities as discussed in Note 3, goodwill associated with the commodity-marketing businesses that were a part of the Sempra Commodities segment was reclassified to Investment in RBS Sempra Commodities LLP on the Consolidated Balance Sheets. The carrying amount of goodwill included in Sundry Assets on the Consolidated Balance Sheets is as follows.

(Dollars in millions)	June 30, 2008	December 31, 2007
Sempra Commodities	\$ --	\$ 164
Parent and other	6	6
	<u>\$ 6</u>	<u>\$ 170</u>

## Pension and Other Postretirement Benefits

The following tables provide the components of benefit costs:

(Dollars in millions)	Pension Benefits		Other Postretirement Benefits	
	Three months ended		Three months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Service cost	\$ 18	\$ 17	\$ 7	\$ 7
Interest cost	41	41	13	14
Expected return on assets	(40)	(39)	(12)	(11)
Amortization of:				
Prior service cost (credit)	1	--	--	(1)
Actuarial loss	2	3	--	2
Curtailment	--	5	(2)	--
Special termination	--	1	--	--
Regulatory adjustment	(7)	(7)	--	1
Total net periodic benefit cost	<u>\$ 15</u>	<u>\$ 21</u>	<u>\$ 6</u>	<u>\$ 12</u>

(Dollars in millions)	Pension Benefits		Other Postretirement Benefits	
	Six months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Service cost	\$ 36	\$ 39	\$ 13	\$ 14
Interest cost	83	82	27	28
Expected return on assets	(80)	(79)	(24)	(22)
Amortization of:				
Prior service cost (credit)	2	2	(1)	(2)
Actuarial loss	4	5	--	4
Curtailment	--	5	(2)	--
Special termination	--	1	--	--
Regulatory adjustment	(22)	(23)	1	3
<b>Total net periodic benefit cost</b>	<b>\$ 23</b>	<b>\$ 32</b>	<b>\$ 14</b>	<b>\$ 25</b>

The company expects to contribute \$73 million to its pension plans and \$35 million to its other postretirement benefit plans in 2008. For the six months ended June 30, 2008, the company made contributions of \$15 million and \$16 million to the pension plans and other postretirement benefit plans, respectively, including \$10 million and \$7 million, respectively, for the three months ended June 30, 2008.

### Common Stock

In April 2008, the company entered into a Collared Accelerated Share Acquisition Program under which the company prepaid \$1 billion to repurchase shares of its common stock in a share forward transaction. The total number of shares purchased (subject to a minimum and maximum number of shares) will be determined by dividing the \$1 billion purchase price by the volume-weighted average trading prices of shares of Sempra Energy common stock during a valuation period, minus a fixed discount and subject to a minimum and maximum price set during a hedging period. The program is expected to conclude in the fourth quarter of 2008.

The company's outstanding shares used to calculate earnings per share are reduced by the number of shares repurchased as they are delivered to the company, and the \$1 billion purchase price was recorded as a reduction in shareholders' equity upon its prepayment. Through June 30, 2008, the company has received 15,407,961 shares, representing the minimum number of shares to be purchased under the program. The maximum number of shares which may be purchased based on the minimum price set during the hedging period is 19,579,177. The company will receive any additional repurchased shares above the minimum at the end of the valuation period.

### Earnings per Share (EPS)

Diluted EPS for the three months ended June 30, 2008 and 2007, respectively, reflects the inclusion of 4,101,000 and 4,765,000 additional shares in the weighted-average shares outstanding for the dilutive effect of stock options, restricted stock awards and restricted stock units. Diluted EPS for the six months ended June 30, 2008 and 2007 reflects the inclusion of 4,069,000 and 4,688,000 additional shares, respectively, in the weighted-average shares outstanding for the dilutive effect of stock options and restricted stock awards and units.

The dilution from common stock options is based on the treasury stock method, whereby the proceeds from the exercise price and unearned compensation as defined by SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), are assumed to be used to repurchase shares on the open market at the average market price for the period. The calculation excludes options for which the exercise price was greater than

the average market price for common stock during the period. There were 801,684 and 28,889 such awards outstanding during the three months ended June 30, 2008 and 2007, respectively, and 1,485,542 and 14,564 such awards outstanding during the six months ended June 30, 2008 and 2007, respectively. The company had 710,113 and 705,216 stock options that were outstanding during the three months ended June 30, 2008 and 2007, respectively, and 697,283 stock options outstanding during the six months ended June 30, 2007, that were antidilutive due to the inclusion of unearned compensation in the assumed proceeds under the treasury stock method. There were no such antidilutive options for the six months ended June 30, 2008.

The dilution from unvested restricted stock awards and units is based on the treasury stock method, whereby assumed proceeds equivalent to the unearned compensation as defined by SFAS 123(R) 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. There were 462,056 antidilutive restricted stock units and 151 antidilutive restricted stock awards outstanding during the six months ended June 30, 2008 and 2007, respectively, and 371,714 antidilutive restricted stock units and 302 antidilutive restricted stock awards outstanding during the three months ended June 30, 2008 and 2007, respectively.

### **Share-Based Compensation**

Total share-based compensation expense, net of income tax, was \$14 million for each of the six month periods ended June 30, 2008 and 2007. Pursuant to the company's share-based compensation plans, 783,500 non-qualified stock options and 643,250 restricted stock units were granted during the six months ended June 30, 2008.

The company's shareholders approved the 2008 Long Term Incentive Plan at the company's Annual Meeting in May 2008. The plan became effective May 23, 2008 and replaced the 1998 Long Term Incentive Plan and Employee Stock Incentive Plan, which permitted the grant of similar stock and stock-based incentive awards to employees, and the Non-Employee Directors Stock Plan, which provided for automatic grants of stock options to non-employee directors.

Under the plan, the company may award a wide variety of incentive awards relating to shares of the company's common stock to employees of the company and its subsidiaries and to non-employee directors of the company. These awards consists of stock options and stock appreciation rights, restricted stock and restricted stock units, dividend equivalent awards, and stock payment awards. Cash-based awards may also be granted.

The maximum number of the company's shares available for issuance under the plan is:

- 6,500,000 shares, plus
- The number of shares that are forfeited or cancelled under the plans that the 2008 plan replaced and were outstanding awards on May 23, 2008, the effective date of the 2008 plan.

As of June 30, 2008, 6,506,081 shares were authorized and available for future grants of share-based awards.

### **Capitalized Interest**

The company recorded \$27 million and \$58 million of capitalized interest for the three months and six months ended June 30, 2008, respectively, including the debt-related portion of allowance for funds used during construction for the Sempra Utilities. The company recorded \$25 million and \$46 million of capitalized interest for the three months and six months ended June 30, 2007, respectively, including the debt-related portion of allowance for funds used during construction.

## Comprehensive Income

The following is a reconciliation of net income to comprehensive income:

(Dollars in millions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net income	\$ 244	\$ 277	\$ 486	\$ 505
Foreign currency adjustments	(88)	13	(15)	7
Financial instruments	25	8	7	7
Available-for-sale securities	(14)	13	(12)	18
Net actuarial gain	3	15	4	15
Prior service cost	--	2	--	2
Comprehensive income	\$ 170	\$ 328	\$ 470	\$ 554

Amounts in the table above are net of income tax expense (benefit) as follows:

(Dollars in millions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Foreign currency adjustments	\$ (6)	\$ 1	\$ (2)	\$ --
Financial instruments	17	8	5	7
Available-for-sale securities	(10)	7	(10)	11
Net actuarial gain	1	10	2	10
Prior service cost	--	2	--	2

## Other Income, Net

Other Income, Net consists of the following:

(Dollars in millions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Allowance for equity funds used during construction	\$ 8	\$ 4	\$ 16	\$ 10
Regulatory interest, net	(1)	(7)	(6)	(12)
Sundry, net	10	54	26	70
Total	\$ 17	\$ 51	\$ 36	\$ 68

## NOTE 5. DEBT AND CREDIT FACILITIES

### Committed Lines of Credit

At June 30, 2008, the company had available \$4.1 billion in unused, committed lines of credit to provide liquidity and support commercial paper (the major components of which are detailed below). Due to the sale of the commodity-marketing businesses as discussed in Note 3, this amount excludes lines of credit associated with Sempra Commodities. As of May 2008, RBS has replaced Sempra Energy as guarantor on all uncommitted lines of credit. To the extent that Sempra Energy's credit support arrangements, including Sempra Commodities' committed facilities, have not been terminated or replaced, RBS has indemnified Sempra Energy for any claims or losses arising in connection with those arrangements. Additional information concerning Sempra Commodities' committed and uncommitted credit facilities is provided in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Global has a \$2.5 billion, five-year syndicated revolving credit facility expiring in 2010 and a \$750 million, three-year syndicated revolving credit facility expiring in November 2008. At June 30, 2008, Sempra Global had letters of credit of \$38 million outstanding under the five-year facility and no outstanding borrowings under either facility. The facilities provide support for \$829 million of commercial paper outstanding at June 30, 2008.

Sempra LNG has a \$1.25 billion, five-year syndicated revolving credit facility expiring in 2009. At June 30, 2008, Sempra LNG had \$85 million of outstanding letters of credit and no outstanding borrowings under this facility.

The Sempra Utilities have a combined \$600 million revolving credit facility expiring in 2010, under which each utility may borrow up to \$500 million, subject to a combined borrowing limit for both utilities of \$600 million. At June 30, 2008, the company had no outstanding borrowings under this facility.

### **Weighted Average Interest Rate**

The company's weighted average interest rate on outstanding short-term debt was 2.98 percent at June 30, 2008.

### **Long-term Debt**

In June 2008, Sempra Energy publicly offered and sold \$500 million of 6.15-percent notes, maturing in 2018.

### **Interest-Rate Swaps**

The company's fair value interest-rate swaps and interest-rate swaps to hedge cash flows are discussed in Note 6.

## **NOTE 6. FINANCIAL INSTRUMENTS**

The company periodically uses commodity derivative instruments and interest-rate swap agreements to moderate its exposure to commodity price changes and interest-rate changes and to lower its overall cost of borrowing.

### **Fair Value Hedges**

Prior to the sale of the commodity-marketing businesses as discussed in Note 3, commodity fair value hedges were associated with Sempra Commodities and recorded as trading instruments.

As of June 30, 2008 and December 31, 2007, the company had fair value interest-rate swap hedges for a notional amount of debt totaling \$450 million. The maturities of these swaps range from 2010 to 2011. These fair value hedge balances were an asset of \$9 million and \$11 million at June 30, 2008 and December 31, 2007, respectively.

Market value adjustments since inception of the interest-rate swap hedges were recorded as an increase in Fixed-Price Contracts and Other Derivatives (in noncurrent assets as Sundry or in noncurrent liabilities) and a corresponding increase or decrease in Long-Term Debt without affecting net income or other comprehensive income.

## Cash Flow Hedges

Prior to the sale of the commodity-marketing businesses as discussed in Note 3, commodity cash flow hedges were primarily associated with Sempra Commodities and were recorded primarily as trading instruments.

As of June 30, 2008 and December 31, 2007, the company, excluding Otay Mesa VIE, had established cash flow interest-rate swap hedges for notional debt balances totaling \$434 million. The maturities on the swaps at June 30, 2008 range from 2009 to 2038. Separately, Otay Mesa VIE de-designated all cash flow interest-rate swap hedges during the three months ended June 30, 2008.

The balances in Accumulated Other Comprehensive Income (Loss) at June 30, 2008 and December 31, 2007 related to all cash flow hedges were losses of \$18 million and \$24 million, respectively, net of income tax. The company expects that losses of \$15 million, which are net of income tax benefit, that are currently recorded in Accumulated Other Comprehensive Income (Loss) related to these cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings. In connection with the consummation of the transaction related to Sempra Commodities discussed in Note 3, losses of \$16 million, net of income tax, of Sempra Commodities' cash flow hedge balance were recognized and reflected in the gain on the transaction, losses of \$7 million, net of income tax, were recognized in the second quarter of 2008, and losses of \$12 million, net of income tax, will be recognized over the remainder of the year.

## Hedge Ineffectiveness

A summary of the hedge ineffectiveness gains (losses) follows:

(Dollars in millions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Commodity hedges:*				
Cash flow hedges	\$ --	\$ 1	\$ (3)	\$ 1
Fair value hedges	--	17	(9)	46
Time value exclusions from hedge assessment	--	35	--	33
Total unrealized gains (losses)	\$ --	\$ 53	\$ (12)	\$ 80

\* For commodity derivative instruments, the company records ineffectiveness gains (losses) in Revenues from Sempra Global and Parent on the Statements of Consolidated Income.

There were no ineffectiveness gains (losses) related to interest-rate hedges for all periods presented.

For commodity derivative instruments designated as fair value hedges, the ineffectiveness gains (losses) relate to hedges of commodity inventory and include gains (losses) that represent time value of money, which are excluded for hedge assessment purposes. For commodity derivative instruments designated as cash flow hedges, the ineffectiveness amount for 2008 relates to hedges of natural gas purchases and sales related to transportation and storage capacity arrangements. These commodity derivative instruments were held by the company's commodity-marketing businesses which were sold into RBS Sempra Commodities on April 1, 2008, as discussed in Note 3.



## Sempra Utilities

At the Sempra Utilities, the use of derivative instruments is subject to certain limitations imposed by company policy and regulatory requirements. These instruments enable the company to estimate with greater certainty the effective prices to be received by the company and the prices to be charged to its customers. The Sempra Utilities record realized gains or losses on derivative instruments associated with transactions for electric energy and natural gas contracts in Cost of Electric Fuel and Purchased Power and Cost of Natural Gas, respectively, on the Statements of Consolidated Income. On the Consolidated Balance Sheets, the Sempra Utilities record corresponding regulatory assets and liabilities related to unrealized gains and losses from these derivative instruments to the extent derivative gains and losses associated with these derivative instruments will be payable or recoverable in future rates.

### Adoption of FSP FIN 39-1

The company adopted FSP FIN 39-1 effective January 1, 2008, which requires retroactive application. Each Consolidated Balance Sheet herein reflects the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when management believes a legal right of setoff exists. As of June 30, 2008, the company offset fair value cash payables against net derivative positions of \$42 million. As of December 31, 2007, the company offset fair value cash collateral receivables and payables against net derivative positions of \$177 million and \$1.1 billion, respectively. The fair value of cash collateral that was not offset in the Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007 was \$6 million and \$27 million, respectively. The fair value of commodity derivative assets and liabilities as of June 30, 2008 and December 31, 2007, determined in accordance with the company's netting policy, is presented below.

### Fair Value Hierarchy

The company's valuation techniques used to measure fair value and the definition of the three levels of the fair value hierarchy, as defined in SFAS 157, *Fair Value Measurements* (SFAS 157), are discussed in Note 11 of the Notes to Consolidated Financial Statements in the Annual Report.

The following tables set forth by level within the fair value hierarchy the company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2008 and December 31, 2007. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The company's 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.

Recurring Fair Value Measures (Dollars in millions)	At fair value as of June 30, 2008*				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
<b>Assets:</b>					
Other derivatives	\$ 31	\$ 290	\$ 5	\$ --	\$ 326
Nuclear decommissioning trusts**	505	171	--	--	676
Short-term investments	--	413	--	--	413
Other	1	--	--	--	1
<b>Total</b>	<b>\$ 537</b>	<b>\$ 874</b>	<b>\$ 5</b>	<b>\$ --</b>	<b>\$ 1,416</b>
<b>Liabilities:</b>					
Other derivatives	\$ --	\$ 298	\$ --	\$ --	\$ 298

Recurring Fair Value Measures (Dollars in millions)	At fair value as of December 31, 2007***				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
<b>Assets:</b>					
Trading derivatives	\$ 201	\$ 2,943	\$ 446	\$ (1,197)	\$ 2,393
Commodity trading inventories	--	2,177	--	--	2,177
Other derivatives	16	45	7	--	68
Nuclear decommissioning trusts**	551	175	--	--	726
Other	86	6	7	--	99
<b>Total</b>	<b>\$ 854</b>	<b>\$ 5,346</b>	<b>\$ 460</b>	<b>\$ (1,197)</b>	<b>\$ 5,463</b>
<b>Liabilities:</b>					
Trading derivatives	\$ 200	\$ 2,116	\$ 59	\$ (302)	\$ 2,073
Other derivatives	--	32	--	--	32
<b>Total</b>	<b>\$ 200</b>	<b>\$ 2,148</b>	<b>\$ 59</b>	<b>\$ (302)</b>	<b>\$ 2,105</b>

\* On April 1, 2008, the commodity-marketing businesses were sold, as discussed in Note 3.

\*\* Excludes cash balances.

\*\*\* Amounts have been reclassified to reflect the retrospective application of FSP FIN 39-1.

The determination of the fair values above incorporates various factors required under SFAS 157. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of the company's nonperformance risk on its liabilities.

The following tables set forth a reconciliation primarily of changes in the fair value of net trading and other derivatives classified as level 3 in the fair value hierarchy:

(Dollars in millions)	Three months ended June 30,	
	2008	2007
Balance as of April 1	\$ 343	\$ 344
Realized and unrealized losses	--	94
Settlements	(2)	33
Sale of the commodity-marketing businesses	(336)	--
Balance as of June 30	\$ 5	\$ 471
Change in unrealized gains (losses) relating to instruments still held as of June 30	\$ --	\$ 159

(Dollars in millions)	Six months ended June 30,	
	2008	2007
Balance as of January 1	\$ 401	\$ 519
Realized and unrealized losses	(82)	(156)
Purchases, issuances and settlements	22	108
Sale of the commodity-marketing businesses	(336)	--
Balance as of June 30	\$ 5	\$ 471
Change in unrealized gains (losses) relating to instruments still held as of June 30	\$ --	\$ 77

Gains and losses (realized and unrealized) for level 3 recurring items are primarily related to the commodity-marketing businesses and are included in Revenues for Sempra Global and Parent on the Statements of Consolidated Income for the three months ended March 31, 2008. With the sale of these businesses on April 1, 2008, level 3 recurring activity is substantially reduced.

#### NOTE 7. SEMPRAS UTILITIES' REGULATORY MATTERS

##### Sunrise Powerlink Electric Transmission Line

SDG&E has applied to the California Public Utilities Commission (CPUC) for authorization to construct a 500-kilovolt (kV) electric transmission line between the Imperial Valley and the San Diego region that will be able to deliver 1,000 MW (Sunrise Powerlink). The project, as proposed by the company, is projected to cost approximately \$1.5 billion, which includes an allowance for funds used during construction related to both debt and equity. The projected cost is subject to change pending the final route, terms, conditions and mitigation requirements stipulated in the CPUC decision.

On June 20, 2008, the CPUC issued a ruling that delays the release of the final environmental impact report and directs the Independent System Operator (ISO) to perform additional economic analyses of alternatives to the route preferred by SDG&E. Pursuant to the ruling, the CPUC recirculated revised portions of the draft environmental impact report on July 11, 2008, with public comments due on the revisions on August 25, 2008. A final environmental impact report and proposed decision on the project by the CPUC are scheduled for the fourth quarter of 2008, with a final decision scheduled by year-end. Given this timeline, if the project is approved by the CPUC as proposed by the company, the earliest management projects the Sunrise Powerlink would be in commercial operation is in the second half of 2011.

## **General Rate Case (GRC)**

In July 2008, the CPUC issued a final decision in regard to both SoCalGas' and SDG&E's 2008 general rate case (2008 GRC). The decision adopted the test-year 2008 revenue requirements, effective retroactive to January 1, 2008, and the post-test year revenue requirements that were included in the settlement agreements filed with the CPUC in December 2007. The settlements represent an increase in the annual revenue requirement in 2008 of \$59 million for SoCalGas and \$138 million for SDG&E as compared to the 2007 revenue requirement and provide average annual increases of approximately \$52 million, or three percent, for SoCalGas and \$43 million, or three percent, for SDG&E, in each of the post-test years' revenue requirements. The decision does not impose a cap on the company's earnings.

Since the final decision was not issued by June 30, 2008, the Sempra Utilities' reported net income for the first six months of 2008 is based on the 2007 authorized revenue requirement as established by the CPUC's 2004 Cost of Service decision. As the 2008 GRC decision is retroactive, the company will recognize additional net income for the period January 1 through June 30, 2008 of approximately \$42 million in the third quarter of 2008.

## **Cost of Capital**

The CPUC issued a decision in May 2008 establishing a uniform, multi-year Cost of Capital Mechanism for SDG&E that will replace its existing cost of capital mechanism. The new mechanism requires a full cost of capital application every third year, with the first full application being filed in April 2010 for test-year 2011. Between test years, return on equity would automatically be adjusted if there are significant changes in the bond market, as defined in the mechanism. There is no provision for capital structure recalibration outside of the test year, but an application may be filed should credit ratings change in mid-cycle. The decision also allows a cost of capital application to be filed outside of the mechanism process upon an extraordinary or catastrophic event with material impact.

## **2009 Biennial Cost Allocation Proceeding (BCAP)**

In August 2006, SoCalGas, SDG&E and Southern California Edison jointly filed an application with the CPUC seeking its approval of a series of revisions to the natural gas operations and service offerings of the Sempra Utilities. The CPUC issued a final decision in December 2007 approving some, but not all, of the proposals and deferring a number of issues, including SoCalGas' natural gas storage program, to the Sempra Utilities' next BCAP, which began in February 2008. Evidentiary hearings on this issue were held in July 2008, with a draft decision expected by year-end 2008. Effective January 1, 2008, and until such time as a resolution is achieved in the BCAP, the storage revenues and costs that were previously shared between ratepayers and shareholders are being deferred pending a regulatory decision on this matter.

## **NOTE 8. COMMITMENTS AND CONTINGENCIES**

### **Legal Proceedings**

At June 30, 2008, the company's reserves for litigation matters were \$10 million. In addition, the company has accrued liabilities for settled matters of \$456 million, including \$435 million for settlements related to certain litigation arising out of the 2000 - 2001 California energy crisis. Litigation reserves related to Sempra Commodities were assumed by RBS Sempra Commodities; however, the company has indemnified RBS should the liabilities from the ultimate resolution of these matters be greater than the reserves. The uncertainties inherent in complex legal proceedings make it difficult to estimate with reasonable certainty the costs and effects of resolving legal matters. Accordingly, costs

ultimately incurred may differ materially from estimated costs and could materially adversely affect the company's business, cash flows, results of operations and financial condition.

#### *Continental Forge Settlement*

The litigation that is the subject of the settlements and \$435 million of accrued liabilities is frequently referred to as the Continental Forge litigation, although the settlements also include other cases. The terms of these settlements were reported previously. On July 24, 2008, the California Attorney General and the Department of Water Resources (DWR) dismissed their appeal of the final order, and the settlements are expected to become final shortly. The reserves recorded for the settlements in 2005 fully provide for the present value of both the cash amounts to be paid in the settlements and the price discount to be provided on electricity to be delivered under the DWR contract.

#### *DWR Contract*

In February 2002, the California Energy Oversight Board (CEOB) and the CPUC filed challenges at the Federal Energy Regulatory Commission (FERC) to the DWR's contracts with Sempra Generation and other power suppliers. After the FERC upheld the contracts in 2003, the CEOB and CPUC appealed to the U.S. Court of Appeals for the Ninth Circuit (Ninth Circuit Court of Appeals), challenging the FERC's application of the Mobile-Sierra doctrine's "public interest" standard of review to the contracts without having initially determined that the contracts met a more rigorous "just and reasonable" standard of review. In June 2008, the United States Supreme Court (Supreme Court) ruled that the FERC was correct to apply the Mobile-Sierra doctrine (which presumes that contract rates are just and reasonable) absent a demonstration that one of the contracting parties' unlawful manipulation of the market directly affected the rates. The Supreme Court ruled that the FERC should amplify or clarify its findings on this issue and consider whether the contract rates seriously harm the public interest.

At various times since the contract's inception, Sempra Generation and the DWR have also had disputes regarding the meaning of terms and performance of their agreement under which Sempra Generation sells electricity to the DWR. In 2002, Sempra Generation and the DWR commenced litigation in a state civil action in which the DWR sought to void its contract with Sempra Generation, seeking damages, injunctive and declaratory relief and \$100 million in punitive damages, alleging that the company misrepresented its intention and ability to construct a temporary phase of one power project and, alternatively, breached its contract by failure to construct and deliver power from that phase. Although Sempra Generation was initially awarded summary judgment on all claims, in June 2005, the California Court of Appeal reversed the summary judgment decision, concluding that the contract language was ambiguous and presented triable issues of material fact that must be addressed by further evidence and proceedings. The case was remanded to the trial court. In January 2007, the DWR added additional claims for fraud and breach of contract. In June 2008, the California Court of Appeal affirmed the trial court's denial of Sempra Generation's motion to compel the DWR to arbitrate its new claims. The case will shortly be returned to the San Diego Superior Court for further proceedings.

The DWR commenced an additional arbitration against Sempra Generation in February 2006, relating to the manner in which Sempra Generation schedules its Mexicali plant. The DWR seeks \$100 million in damages and an order terminating the contract. In July 2007, the arbitration panel issued an order finding that the claims asserted by the DWR in the arbitration were subject to the FERC's exclusive jurisdiction, and staying the matter until any proceedings filed by the DWR at the FERC are final. In September 2007, the DWR filed a Petition for Declaratory Order at the FERC asking the agency to declare it does not have and will not assert jurisdiction over the claims posed by the DWR. In November 2007, the FERC granted the DWR's petition, finding that the FERC does not have exclusive jurisdiction to determine the claims

alleged by the DWR. Sempra Generation has requested that the FERC rehear or clarify this ruling. In anticipation of a FERC order on rehearing, the arbitration panel has scheduled arbitration hearings in November 2008.

#### *Other Natural Gas Cases*

In April 2003, Sierra Pacific Resources and its utility subsidiary Nevada Power filed a lawsuit in the U.S. District Court in Nevada against major natural gas suppliers, including Sempra Energy, the Sempra Utilities and Sempra Commodities, seeking recovery of damages alleged to aggregate in excess of \$150 million (before trebling). The lawsuit alleges a conspiracy to manipulate and inflate the prices that Nevada Power had to pay for its natural gas by preventing the construction of natural gas pipelines to serve Nevada and other Western states, and reporting artificially inflated prices to trade publications. The U.S. District Court dismissed the case in November 2004, determining that the FERC had exclusive jurisdiction to resolve the claims. In September 2007, the Ninth Circuit Court of Appeals reversed the dismissal and returned the case to the District Court for further proceedings.

Pending in the U.S. District Court in Nevada are five cases against Sempra Energy, Sempra Commodities, the Sempra Utilities and various other companies, alleging that energy prices were unlawfully manipulated by the reporting of artificially inflated natural gas prices to trade publications and by entering into wash trades and churning transactions, four of which also include conspiracy allegations similar to those made in the Continental Forge litigation. The court dismissed four of these actions in 2005, determining that the FERC had exclusive jurisdiction to resolve the claims. The remaining case, which includes conspiracy allegations, was stayed. In September 2007, the Ninth Circuit Court of Appeals reversed the dismissal and returned the cases to the District Court for further proceedings.

#### *Electricity Cases*

In November 2006, the U.S. District Court in San Diego dismissed a lawsuit filed by the California Attorney General in November 2005 against Sempra Commodities alleging illegal market-gaming activities during the California energy crisis and claiming unspecified civil penalties and damages. The court ruled that only the FERC has the authority to regulate wholesale energy markets. The court also declined to remand the case to state court. The FERC has previously investigated and entered into settlements with numerous energy trading companies, including Sempra Commodities, regarding similar allegations. The Ninth Circuit Court of Appeals heard oral argument on the California Attorney General's appeal of the dismissal in June 2008 and took the matter under submission.

#### *FERC Refund Proceedings*

The FERC is investigating prices charged to buyers in the California Power Exchange (PX) and ISO markets by various electric suppliers. In December 2002, a FERC Administrative Law Judge (ALJ) issued preliminary findings indicating that the PX and ISO owe power suppliers \$1.2 billion for the October 2, 2000 through June 20, 2001 period (the \$3.0 billion that the California PX and ISO still owe energy companies less \$1.8 billion that the energy companies charged California customers in excess of the preliminarily determined competitive market clearing prices). In March 2003, the FERC adopted its ALJ's findings, but changed the calculation of the refund by basing it on a different estimate of natural gas prices, which would increase the refund obligations from \$1.8 billion to more than \$3 billion for the same time period.

Various parties appealed the FERC's order to the Ninth Circuit Court of Appeals. In August 2006, the Court of Appeals held that the FERC had properly established October 2, 2000 through June 20, 2001 as the refund period and had properly excluded certain bilateral transactions between sellers and the DWR

from the refund proceedings. However, the court also held that the FERC erred in excluding certain multi-day transactions from the refund proceedings. Finally, while the court upheld the FERC's decision not to extend the refund proceedings to the summer period (prior to October 2, 2000), it found that the FERC had erred in not considering other remedies, such as disgorgement of profits, for tariff violations that are alleged to have occurred prior to October 2, 2000. The Ninth Circuit Court of Appeals remanded the matter to the FERC for further proceedings. In November 2007, Sempra Commodities and other entities filed requests for rehearing of the Ninth Circuit Court of Appeals' August 2006 decision.

In August 2007, the Ninth Circuit Court of Appeals issued a decision reversing and remanding FERC orders declining to provide refunds in a related proceeding regarding short-term bilateral sales up to one month in the Pacific Northwest. The court found that some of the short-term sales between the DWR and various sellers (including Sempra Commodities) that had previously been excluded from the refund proceeding involving sales in the ISO and PX markets in California, were within the scope of the Pacific Northwest refund proceeding. In December 2007, Sempra Commodities and other sellers filed requests for rehearing of the Ninth Circuit Court of Appeals' August 2007 decision. It is possible that on remand, the FERC could order refunds for short-term sales to the DWR in the Pacific Northwest refund proceeding.

RBS Sempra Commodities has reserves for its estimated refund liability that reflect its estimate of the effect of the FERC's revision of the benchmark prices it will use to calculate refunds and other refund-related developments. Pursuant to the agreements related to the formation of RBS Sempra Commodities, the company has indemnified RBS related to these proceedings should the liability from the ultimate resolution be greater than the reserves.

In a separate complaint filed with the FERC in 2002, the California Attorney General challenged the FERC's authority to establish a market-based rate regime, and further contended that, even if such a regime were valid, electricity sellers had failed to comply with the FERC's quarterly reporting requirements. The Attorney General requested that the FERC order refunds from suppliers. The FERC dismissed the complaint and instead ordered sellers to restate their reports. After an appeal by the California Attorney General, the Ninth Circuit Court of Appeals upheld the FERC's authority to establish a market-based rate regime, but ordered remand of the case to the FERC for further proceedings, stating that failure to file transaction-specific quarterly reports gave the FERC authority to order refunds with respect to jurisdictional sellers. The Supreme Court has declined further review of the Ninth Circuit Court of Appeals' order. On remand, it is possible that the FERC could order refunds or disgorgement of profits for periods in addition to those covered by its prior refund orders and substantially increase the refunds that ultimately may be required to be paid by Sempra Commodities and other power suppliers.

#### *FERC Manipulation Investigation*

The FERC is separately investigating whether there was manipulation of short-term energy markets in the western United States that would constitute violations of applicable tariffs and warrant disgorgement of associated profits. In this proceeding, the FERC's authority is not confined to the periods relevant to the refund proceeding. In May 2002, the FERC ordered all energy companies engaged in electric energy trading activities to state whether they had engaged in various specific trading activities in violation of the PX and ISO tariffs.

In June 2003, the FERC issued several orders requiring various entities to show cause why they should not be found to have violated California ISO and PX tariffs. The FERC directed a number of entities, including Sempra Commodities, to show cause why they should not disgorge profits from certain transactions between January 1, 2000 and June 20, 2001 that are asserted to have constituted gaming and/or anomalous market behavior under the California ISO and/or PX tariffs. In October 2003, Sempra

Commodities agreed to pay \$7.2 million in full resolution of these investigations. That liability was recorded as of December 31, 2003. The Sempra Commodities settlement was approved by the FERC in August 2004. Certain California parties have sought rehearing on this order and the FERC has not yet responded.

#### *Other Litigation*

In October 2007, San Diego County experienced catastrophic wildfires. The causes of many of these fires remain under investigation, including the possible role of SDG&E power lines affected by unusually high winds. In July 2008, the California Department of Forestry and Fire Protection (Cal Fire) issued investigation reports stating that the Witch and Rice fires were each a "power line caused fire" and that the Guejito fire occurred when a wire securing a large communication company's fiber optic cable came into contact with an energized power line "causing an arc and starting the fire." The reports indicate that the Witch and Guejito fires merged and eventually burned approximately 198,000 acres, resulted in two fatalities, injured approximately 45 firefighters and destroyed approximately 1,141 homes. Cal Fire is still investigating the perimeters of these two fires to determine the damages associated with each fire. Cal Fire stated that the Rice fire burned approximately 9,500 acres and damaged 206 homes and two commercial properties. The CPUC's Consumer Protection and Safety Division is also expected to issue a report in the third quarter of 2008. Numerous lawsuits, four of which seek to be designated as class actions, have been filed against SDG&E in San Diego County Superior Court seeking unspecified amounts for damages relating to the fires. Several of the lawsuits also name Sempra Energy as a defendant. The lawsuits allege inverse condemnation, negligence and other causes of action, and assert that SDG&E improperly designed and maintained its power lines and failed to adequately clear adjacent vegetation. A lawsuit filed by the City of San Diego seeks to recover for property damage, workers' compensation benefits for its employees, and fire suppression costs. The company has approximately \$1 billion in liability insurance and has notified its insurers of the lawsuits.

The company and several subsidiaries, along with three oil and natural gas companies, the City of Beverly Hills and the Beverly Hills Unified School District, are defendants in a toxic tort lawsuit filed in Los Angeles County Superior Court by approximately 1,000 plaintiffs claiming that various emissions resulted in cancer or fear of cancer. The company has submitted the case to its insurers, who have reserved their rights with respect to coverage. In November 2006, the court granted the defendants' summary judgment motions based on lack of medical causation for the 12 initial plaintiffs scheduled to go to trial first. The court also granted the company's separate summary judgment motion on punitive damages. The court has stayed the case as to the remaining plaintiffs pending the appeal of rulings.

In 1998, Sempra Energy and the Sempra Utilities converted their traditional pension plans (other than the SoCalGas union employee plan) to cash balance plans. In July 2005, a lawsuit was filed against SoCalGas in the U.S. District Court for the Central District of California alleging that the conversion unlawfully discriminated against older employees and failed to provide required disclosure of a reduction in benefits. In October 2005, the court dismissed three of the four causes of action and, in March 2006, dismissed the remaining cause of action. The Ninth Circuit Court of Appeals heard oral argument on plaintiffs' appeal of the dismissals in February 2008 and took the matter under submission.

#### **Nuclear Insurance**

SDG&E and the other owners of the San Onofre Nuclear Generating Station (SONGS) have insurance to respond to nuclear liability claims related to SONGS. The insurance provides coverage of \$300 million, the maximum amount available, and includes coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to \$10.5 billion of secondary financial protection. Should any of the licensed/commercial reactors in the United States experience a nuclear liability loss that exceeds the \$300



million insurance limit, all utilities owning nuclear reactors could be assessed to provide the secondary financial protection. SDG&E's total share would be up to \$40 million, subject to an annual maximum assessment of \$6 million, unless a default were to occur by any other SONGS owner. In the event the secondary financial protection limit were insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

SDG&E and the other owners of SONGS have \$2.75 billion of nuclear property, decontamination and debris removal insurance and up to \$490 million for outage expenses and replacement power costs incurred because of accidental property damage. This coverage is limited to \$3.5 million per week for the first 52 weeks and \$2.8 million per week for up to 110 additional weeks, after a waiting period of 12 weeks. The insurance is provided through a mutual insurance company, through which insured members are subject to retrospective premium assessments (up to \$8.5 million in SDG&E's case).

The nuclear property insurance program, subscribed to by members of the nuclear power generating industry, 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 limit is the maximum amount to be paid to members who sustain losses or damages from these non-certified terrorist acts.

#### **NOTE 9. SEGMENT INFORMATION**

The company is a holding company whose subsidiaries are primarily engaged in the energy business. It has five separately managed reportable segments (SoCalGas, SDG&E, Sempra Commodities, Sempra Generation and Sempra Pipelines & Storage), which are described in the Annual Report. The Sempra Commodities segment includes the operating results of Sempra Marketing, which holds firm service capacity on the Rockies Express Pipeline. The "all other" amounts consist primarily of parent organizations and Sempra LNG. Additional information regarding Sempra Commodities is provided in Note 3.

The accounting policies of the segments are described in the Notes to Consolidated Financial Statements in the Annual Report. Segment performance is evaluated by management based on reported net income. Sempra Utility transactions are based on rates set by the CPUC and the FERC.

Discontinued operations are discussed in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report. The following tables exclude amounts from discontinued operations, unless otherwise noted.

(Dollars in millions)	Three months ended June 30,				Six months ended June 30,			
	2008		2007		2008		2007	
<b>REVENUES</b>								
SoCalGas	\$ 1,143	46 %	\$ 981	37 %	\$ 2,699	47 %	\$ 2,349	41 %
SDG&E	754	30	659	25	1,500	26	1,368	24
Sempra Commodities	16	--	710	27	473	8	1,222	22
Sempra Generation	482	19	277	10	928	16	674	12
Sempra Pipelines & Storage	118	5	84	3	211	3	161	3
All other	5	--	(4)	--	(5)	--	(11)	--
Adjustments and eliminations	(5)	--	(27)	(1)	(12)	--	(62)	(1)
Intersegment revenues	(10)	--	(19)	(1)	(21)	--	(36)	(1)
<b>Total</b>	<b>\$ 2,503</b>	<b>100 %</b>	<b>\$ 2,661</b>	<b>100 %</b>	<b>\$ 5,773</b>	<b>100 %</b>	<b>\$ 5,665</b>	<b>100 %</b>
<b>INTEREST EXPENSE</b>								
SoCalGas	\$ 14		\$ 17		\$ 30		\$ 35	
SDG&E	22		23		49		47	
Sempra Commodities	4		10		16		17	
Sempra Generation	4		3		8		7	
Sempra Pipelines & Storage	4		3		6		8	
All other	11		53		48		109	
Intercompany eliminations	(21)		(43)		(59)		(87)	
<b>Total</b>	<b>\$ 38</b>		<b>\$ 66</b>		<b>\$ 98</b>		<b>\$ 136</b>	
<b>INTEREST INCOME</b>								
SoCalGas	\$ 4		\$ 8		\$ 7		\$ 14	
SDG&E	2		1		4		2	
Sempra Commodities	--		10		7		15	
Sempra Generation	2		5		4		16	
Sempra Pipelines & Storage	5		4		8		8	
All other	18		39		53		82	
Intercompany eliminations	(21)		(43)		(59)		(87)	
<b>Total</b>	<b>\$ 10</b>		<b>\$ 24</b>		<b>\$ 24</b>		<b>\$ 50</b>	
<b>DEPRECIATION AND AMORTIZATION</b>								
SoCalGas	\$ 71	41 %	\$ 70	41 %	\$ 142	41 %	\$ 139	41 %
SDG&E	78	46	75	44	155	45	150	44
Sempra Commodities	--	--	6	3	6	2	13	4
Sempra Generation	14	8	13	8	28	8	25	7
Sempra Pipelines & Storage	3	2	3	2	5	1	6	2
All other	5	3	4	2	10	3	7	2
<b>Total</b>	<b>\$ 171</b>	<b>100 %</b>	<b>\$ 171</b>	<b>100 %</b>	<b>\$ 346</b>	<b>100 %</b>	<b>\$ 340</b>	<b>100 %</b>
<b>INCOME TAX EXPENSE (BENEFIT)</b>								
SoCalGas	\$ 36		\$ 39		\$ 76		\$ 78	
SDG&E	35		35		67		73	
Sempra Commodities	94		86		133		90	
Sempra Generation	21		5		52		44	
Sempra Pipelines & Storage	11		(2)		15		(3)	
All other	5		(20)		(14)		(76)	
<b>Total</b>	<b>\$ 202</b>		<b>\$ 143</b>		<b>\$ 329</b>		<b>\$ 206</b>	
<b>EQUITY EARNINGS (LOSSES)</b>								
Earnings (losses) recorded before tax:								
Sempra Commodities	\$ 146		\$ --		\$ 146		\$ --	
Sempra Generation	--		--		2		(1)	
Sempra Pipelines & Storage	12		(3)		20		(3)	
All other	(3)		(3)		(7)		(8)	
<b>Total</b>	<b>\$ 155</b>		<b>\$ (6)</b>		<b>\$ 161</b>		<b>\$ (12)</b>	
Earnings (losses) recorded net of tax:								
Sempra Pipelines & Storage	\$ 18		\$ 15		\$ 36		\$ 27	
Sempra Commodities	--		(6)		3		40	
<b>Total</b>	<b>\$ 18</b>		<b>\$ 9</b>		<b>\$ 39</b>		<b>\$ 67</b>	

(Dollars in millions)	Three months ended June 30,				Six months ended June 30,			
	2008		2007		2008		2007	
<b>NET INCOME</b>								
SoCalGas*	\$ 56	23 %	\$ 54	19 %	\$ 113	23 %	\$ 109	22 %
SDG&E*	61	25	51	18	135	28	113	22
Sempra Commodities	130	53	155	56	189	39	226	45
Sempra Generation	23	9	10	4	68	14	64	13
Sempra Pipelines & Storage	24	10	17	6	50	10	33	6
Discontinued operations	--	--	(3)	(1)	--	--	(2)	--
All other	(50)	(20)	(7)	(2)	(69)	(14)	(38)	(8)
<b>Total</b>	<b>\$ 244</b>	<b>100 %</b>	<b>\$ 277</b>	<b>100 %</b>	<b>\$ 486</b>	<b>100 %</b>	<b>\$ 505</b>	<b>100 %</b>

(Dollars in millions)	Six months ended June 30,			
	2008		2007	
<b>EXPENDITURES FOR PROPERTY, PLANT &amp; EQUIPMENT</b>				
SoCalGas	\$ 242	22 %	\$ 191	22 %
SDG&E	428	38	305	34
Sempra Commodities	21	2	20	3
Sempra Generation	13	1	4	--
Sempra Pipelines & Storage	152	14	137	15
All other	258	23	232	26
<b>Total</b>	<b>\$ 1,114</b>	<b>100 %</b>	<b>\$ 889</b>	<b>100 %</b>

(Dollars in millions)	June 30, 2008		December 31, 2007**	
	<b>ASSETS</b>			
SoCalGas	\$ 6,502	27 %	\$ 6,406	22 %
SDG&E	8,672	37	8,499	30
Sempra Commodities	1,986	8	8,620	30
Sempra Generation	1,902	8	1,759	6
Sempra Pipelines & Storage	2,866	12	2,287	8
All other	2,852	12	2,182	8
Intersegment receivables	(1,025)	(4)	(1,036)	(4)
<b>Total</b>	<b>\$ 23,755</b>	<b>100 %</b>	<b>\$ 28,717</b>	<b>100 %</b>
<b>INVESTMENTS IN EQUITY METHOD INVESTEEES</b>				
Sempra Commodities	\$ 1,985		\$ 32	
Sempra Generation	196		205	
Sempra Pipelines & Storage	885		776	
All other	38		46	
<b>Total</b>	<b>\$ 3,104</b>		<b>\$ 1,059</b>	

\* After preferred dividends.

\*\* Adjusted to reflect the adoption of FASB Staff Position FIN 39-1.

## NOTE 10. SUBSEQUENT EVENT

On July 28, 2008, the company announced an agreement to acquire EnergySouth, Inc. (EnergySouth), based in Mobile, Alabama, for \$510 million in cash. Shareholders of EnergySouth will receive \$61.50 per share for their common stock. The transaction, which is subject to approval by the shareholders of EnergySouth and by regulators, as well as other customary conditions, is expected to close by year-end. The boards of directors of Sempra Energy and EnergySouth both have approved the transaction.

## ITEM 2.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements contained in this Form 10-Q and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" contained in the company's 2007 Annual Report on Form 10-K (Annual Report).

#### OVERVIEW

##### **Sempra Energy**

Sempra Energy is a Fortune 500 energy services holding company. Its business units provide electric, natural gas and other energy products and services to its customers. Operations are divided into the Sempra Utilities and Sempra Global. The Sempra Utilities are Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E), which serve consumers from California's Central Valley to the Mexican border. Sempra Global is a holding company for most of the subsidiaries and investments of Sempra Energy that are not subject to California utility regulation. Sempra Global's principal subsidiaries and holdings provide the following energy-related products and services:

- Sempra Commodities holds the company's investment in RBS Sempra Commodities LLP (RBS Sempra Commodities), a joint-venture partnership with The Royal Bank of Scotland (RBS). The partnership was formed on April 1, 2008 from the company's commodity-marketing businesses previously reported in this segment. The partnership's commodity trading businesses serve customers in natural gas, natural gas liquids, power, petroleum and petroleum products, coal, emissions, ethanol and base metals. Further discussion is provided in Note 3 of the Notes to Condensed Consolidated Financial Statements herein. Sempra Commodities also includes the operating results of Sempra Marketing, which holds firm service capacity on the Rockies Express Pipeline.
- Sempra Generation develops, owns and operates electric generation facilities.
- Sempra LNG develops, owns and operates receipt terminals for the importation of liquefied natural gas (LNG), and has supply and marketing agreements to provide natural gas.
- Sempra Pipelines & Storage develops and owns or holds interests in natural gas pipelines and storage facilities in the United States and Mexico, and in companies that provide natural gas or electricity services in Argentina, Chile, Mexico and Peru. The company is currently pursuing the sale of its interests in the Argentine utilities, as discussed in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

## RESULTS OF OPERATIONS

Net income decreased by \$19 million (4%) to \$486 million for the six months ended June 30, 2008, and by \$33 million (12%) to \$244 million for the three months ended June 30, 2008, compared to the corresponding period of 2007, primarily resulting from lower earnings at Sempra Commodities and higher net losses at Sempra LNG and Parent and Other, partially offset by improved results at SDG&E, Sempra Generation and Sempra Pipelines & Storage, as discussed in "Business Unit Results" below.

### Net Income (Loss) by Business Unit

(Dollars in millions)	Six months ended June 30,			
	2008		2007	
<b>Sempra Utilities</b>				
Southern California Gas Company *	\$ 113	23 %	\$ 109	22 %
San Diego Gas & Electric Company *	135	28	113	22
Total Sempra Utilities	248	51	222	44
<b>Sempra Global</b>				
Sempra Commodities	189	39	226	45
Sempra Generation	68	14	64	13
Sempra Pipelines & Storage	50	10	33	6
Sempra LNG	(37)	(8)	(23)	(5)
Total Sempra Global	270	55	300	59
Parent and other **	(32)	(6)	(15)	(3)
Income from continuing operations	486	100	507	100
Discontinued operations, net of income tax	--	--	(2)	--
Net income	\$ 486	100 %	\$ 505	100 %

(Dollars in millions)	Three months ended June 30,			
	2008		2007	
<b>Sempra Utilities</b>				
Southern California Gas Company *	\$ 56	23 %	\$ 54	19 %
San Diego Gas & Electric Company *	61	25	51	18
Total Sempra Utilities	117	48	105	37
<b>Sempra Global</b>				
Sempra Commodities	130	53	155	56
Sempra Generation	23	9	10	4
Sempra Pipelines & Storage	24	10	17	6
Sempra LNG	(28)	(11)	(13)	(4)
Total Sempra Global	149	61	169	62
Parent and other **	(22)	(9)	6	2
Income from continuing operations	244	100	280	101
Discontinued operations, net of income tax	--	--	(3)	(1)
Net income	\$ 244	100 %	\$ 277	100 %

\* After preferred dividends.

\*\* Includes after-tax interest expense (\$26 million and \$41 million for the six months ended June 30, 2008 and 2007, respectively, and \$11 million and \$20 million for the three months ended June 30, 2008 and 2007, respectively), intercompany eliminations recorded in consolidation and certain corporate costs incurred at Sempra Global.

## Sempra Utilities Revenues and Cost of Sales

During the three months and six months ended June 30, 2008, natural gas revenues and the cost of natural gas increased compared to the corresponding periods in 2007, primarily as a result of higher natural gas prices and volumes. Electric revenues increased for the three months and six months ended June 30, 2008 compared to the corresponding periods in 2007 primarily due to higher cost of electric fuel and purchased power and higher volumes.

As a final decision in the 2008 General Rate Case (GRC) was not issued by the California Public Utilities Commission (CPUC) by June 30, 2008, revenues for the first six months of 2008 associated with CPUC-regulated operations were consistent with the 2007 CPUC-authorized revenue established by the 2004 Cost of Service decision. Further discussion is provided in Note 7 of the Notes to Condensed Consolidated Financial Statements herein.

Although the current regulatory framework provides that the cost of natural gas purchased for core customers be passed through to the customers on a substantially concurrent basis, SoCalGas' Gas Cost Incentive Mechanism (GCIM) and SDG&E's natural gas procurement Performance-Based Regulation (PBR) mechanism, which was in effect through March 31, 2008, allow them to share in the savings or costs from buying natural gas for their customers below or above market-based monthly benchmarks. The mechanisms permit full recovery of commodity procurement costs within a tolerance band around the benchmark price. The costs or savings outside the tolerance band are shared between customers and shareholders. Further discussion is provided in Notes 1 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

The tables below summarize the Sempra Utilities' natural gas and electric volumes and revenues by customer class for the six-month periods ended June 30.

### Natural Gas Sales, Transportation and Exchange (Volumes in billion cubic feet, dollars in millions)

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	Natural Gas Sales		Transportation and Exchange		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
<b>2008:</b>						
Residential	160	\$ 2,095	1	\$ 2	161	\$ 2,097
Commercial and industrial	65	768	140	83	205	851
Electric generation plants	--	--	122	44	122	44
Wholesale	--	--	11	4	11	4
	225	\$ 2,863	274	\$ 133	499	2,996
Balancing accounts and other						102
Total						\$ 3,098
<b>2007:</b>						
Residential	158	\$ 1,787	1	\$ 2	159	\$ 1,789
Commercial and industrial	67	642	136	104	203	746
Electric generation plants	--	1	95	42	95	43
Wholesale	--	--	11	4	11	4
	225	\$ 2,430	243	\$ 152	468	2,582
Balancing accounts and other						115
Total						\$ 2,697

Electric Distribution and Transmission  
(Volumes in millions of kilowatt-hours, dollars in millions)

	2008		2007	
	Volumes	Revenue	Volumes	Revenue
Residential	3,715	\$ 415	3,592	\$ 461
Commercial	3,416	353	3,353	396
Industrial	1,114	86	1,062	105
Direct access	1,515	47	1,494	54
Street and highway lighting	51	5	52	6
	9,811	906	9,553	1,022
Balancing accounts and other		173		(40)
Total		\$ 1,079		\$ 982

Although commodity costs associated with long-term contracts allocated to SDG&E from the California Department of Water Resources (DWR) (and the revenues to recover those costs) are not included in the Statements of Consolidated Income, the associated volumes and distribution revenues are included in the above table.

*Sempra Global and Parent Revenues*

Sempra Global and Parent revenues decreased by \$390 million (20%) in the six months ended June 30, 2008 to \$1.6 billion, and by \$425 million (41%) in the three months ended June 30, 2008 to \$616 million. The decrease in the six months included \$749 million lower revenues from Sempra Commodities. Revenues for the six months ended June 30, 2008 and 2007 included \$473 million and \$1.2 billion, respectively, for Sempra Commodities. These revenues were primarily for periods prior to the formation of RBS Sempra Commodities. The decrease was partially offset by \$254 million higher revenues at Sempra Generation, primarily due to increased power sales and favorable natural gas and power prices, and \$50 million higher revenues at Sempra Pipelines & Storage, primarily from Mexican pipeline operations.

The three months ended June 30, 2008 and 2007 included \$16 million and \$710 million, respectively, for Sempra Commodities. This decrease was partially offset by higher revenues at Sempra Generation and Sempra Pipelines & Storage as for the six-month period.

*Sempra Global and Parent Cost of Natural Gas, Electric Fuel and Purchased Power*

Sempra Global and Parent cost of natural gas, electric fuel and purchased power increased by \$308 million (50%) in the six months ended June 30, 2008 to \$922 million, and by \$235 million (85%) in the three months ended June 30, 2008 to \$513 million. The increases were primarily associated with the higher revenues at Sempra Generation and Sempra Pipelines & Storage.

*Sempra Global and Parent Other Cost of Sales*

Sempra Global and Parent other cost of sales for the six months ended June 30, 2008 and 2007 included \$153 million and \$540 million, respectively, for Sempra Commodities. This other cost of sales was primarily for periods prior to the formation of RBS Sempra Commodities. The three months ended June 30, 2008 and 2007 included \$17 million and \$221 million, respectively, for Sempra Commodities.

### *Gains on Sale of Assets*

The gains in the three months and six months ended June 30, 2008 include \$109 million related to the RBS Sempra Commodities transaction as discussed in Note 3 of the Condensed Consolidated Financial Statements herein.

### *Operation and Maintenance*

Operation and maintenance expenses decreased by \$130 million (9%) in the six months ended June 30, 2008 to \$1.3 billion, and by \$198 million (27%) in the three months ended June 30, 2008 to \$549 million. The six months ended June 30, 2008 and 2007 included \$240 million and \$391 million, respectively, for Sempra Commodities. These operation and maintenance expenses were primarily for periods prior to the formation of RBS Sempra Commodities. The three months ended June 30, 2008 and 2007 included \$26 million and \$236 million, respectively, for Sempra Commodities. Excluding amounts for Sempra Commodities, operation and maintenance expenses were comparable year-to-year.

### *Equity Earnings - RBS Sempra Commodities LLP*

Earnings from the company's investment in the newly-formed RBS Sempra Commodities were \$146 million in both periods in 2008. Additional information is provided in the Sempra Commodities discussion in "Business Unit Results" below.

### *Other Income, Net*

Other income, net, decreased by \$32 million (47%) in the six months ended June 30, 2008 to \$36 million, and by \$34 million (67%) in the three months ended June 30, 2008 to \$17 million. The decrease in the six-month period ended June 30, 2008 was primarily attributable to a \$30 million gain from an interest-rate swap in 2007, \$12 million higher losses from investments related to the company's executive retirement and deferred compensation plans in 2008 and \$9 million lower earnings from the sale of tax credits at Sempra Financial, offset by a \$16 million cash payment received for the early termination of a capacity agreement for the Cameron LNG receipt terminal in 2008. The losses associated with the company's executive retirement and deferred compensation plans were offset by a \$7 million reduction in deferred compensation expense in Operation and Maintenance.

The decrease in the three-month period ended June 30, 2008 was primarily attributable to the \$30 million gain from an interest-rate swap in 2007, \$4 million higher losses from investments related to the company's executive retirement and deferred compensation plans in 2008 and \$4 million lower earnings from the sale of tax credits at Sempra Financial.

### *Interest Income*

Interest income decreased by \$26 million (52%) in the six months ended June 30, 2008 to \$24 million, and by \$14 million (58%) in the three months ended June 30, 2008 to \$10 million. The decreases were primarily attributable to lower average short-term investment balances in 2008. Short-term investment balances were higher in 2007 due to asset sales in 2006.



### *Interest Expense*

Interest expense decreased by \$38 million (28%) in the six months ended June 30, 2008 to \$98 million, and by \$28 million (42%) in the three months ended June 30, 2008 to \$38 million. The decrease in the six months was due to the effect of repayment of long-term debt in 2007 and lower interest rates and higher capitalized interest in 2008, partially offset by higher short-term borrowings in 2008. In addition, the three months and six months ended June 30, 2008 included \$16 million reduced interest expense related to energy crisis litigation reserves.

The decrease in the three months ended June 30, 2008 was primarily due to lower long-term debt interest expense and the reduced amounts related to the litigation reserves, as discussed above.

### *Income Taxes*

Income tax expense was \$329 million and \$206 million for the six months ended June 30, 2008 and 2007, respectively, and the effective income tax rates were 42 percent and 32 percent, respectively. Income tax expense was \$202 million and \$143 million for the three months ended June 30, 2008 and 2007, respectively, and the effective income tax rates were 47 percent and 35 percent, respectively.

The increase in income tax expense for the three months and six months ended June 30, 2008 was primarily due to higher effective income tax rates and in the six-month period, higher pretax earnings. The increase in the 2008 effective tax rate was due primarily to the phase-out of the synthetic fuels credits in 2007, unfavorable effects from prior years' income tax issues and higher income tax expense related to Mexican currency translation and inflation adjustments.

### *Equity Earnings, Net of Income Tax*

Equity earnings, net of income tax, decreased by \$28 million (42%) in the six months ended June 30, 2008 to \$39 million, and increased by \$9 million (100%) in the three months ended June 30, 2008 to \$18 million. The decrease for the six-month period was primarily due to an after-tax gain of \$30 million in 2007 at Sempra Commodities from the sale of investments. The three months ended June 30, 2007 included \$6 million of equity losses, net of income tax, at Sempra Commodities.

### *Net Income*

Variations in net income are discussed below in "Business Unit Results."

## **Business Unit Results**

### ***Southern California Gas Company***

Net income for SoCalGas increased by \$4 million (4%) in the six months ended June 30, 2008 to \$113 million, and by \$2 million (4%) in the three months ended June 30, 2008 to \$56 million. The increase in the six months was primarily attributable to \$7 million in regulatory awards in 2008 and \$3 million as a result of a lower effective tax rate, partially offset by \$8 million lower earnings from non-core natural gas storage in accordance with the Omnibus Gas Settlements, as discussed in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

The increase in the three months ended June 30, 2008 was primarily due to \$3 million as a result of a lower effective tax rate and \$2 million in higher natural gas margins due to the elimination of revenue-sharing in 2008, net of higher operating expenses, offset by \$5 million in lower earnings from non-core

natural gas storage. The lower effective tax rate was due mainly to larger tax deductions in 2008 allowed for regulatory purposes.

### ***San Diego Gas & Electric Company***

Net income increased by \$22 million (19%) in the six months ended June 30, 2008 to \$135 million and by \$10 million (20%) in the three months ended June 30, 2008 to \$61 million. The increase in the six months ended June 30, 2008 was primarily attributable to \$12 million due to a lower effective income tax rate, \$5 million higher regulatory awards and \$2 million higher electric transmission margin. The lower effective income tax rate was primarily due to \$7 million from the favorable resolution of prior years' income tax issues in 2008 compared to \$2 million unfavorable in 2007.

The increase in the three months ended June 30, 2008 was due to \$5 million higher regulatory awards and \$4 million from a lower effective income tax rate due to increased tax deductions for internally developed software and for removal costs.

### ***Sempra Commodities***

Net income for Sempra Commodities decreased by \$37 million (16%) in the six months ended June 30, 2008 to \$189 million, and by \$25 million (16%) in the three months ended June 30, 2008 to \$130 million. Recorded results for the second quarter of 2008 represent the company's equity earnings from RBS Sempra Commodities, formed on April 1, 2008, and other items discussed below. Recorded results for 2007 and the first quarter of 2008 represent 100% of this business' earnings until the formation of the partnership.

Net income for the three months and six months ended June 30, 2008 included \$93 million in equity earnings from RBS Sempra Commodities and a \$67 million gain on the transaction with RBS. These results were partially offset by expenses of \$30 million, primarily charges for litigation and unfavorable effects from prior years' income tax issues.

### ***Sempra Generation***

Sempra Generation's net income increased by \$4 million (6%) in the six months ended June 30, 2008 to \$68 million, and by \$13 million (130%) in the three months ended June 30, 2008 to \$23 million. The increase for the six months ended June 30, 2008 was primarily due to \$22 million higher earnings at the plants due to scheduled major maintenance and associated down time in 2007 and \$11 million higher earnings due to increased contractual deliveries to the DWR, offset by an unfavorable change of \$15 million in mark-to-market earnings on long-term forward contracts with RBS Sempra Commodities and other counterparties, \$8 million of lower interest income and \$4 million of higher income tax expense related to Mexican currency translation and inflation adjustments.

The increase for the three months ended June 30, 2008 was primarily due to \$17 million higher earnings due to the scheduled maintenance at the plants in 2007 and \$9 million higher earnings due to increased contractual deliveries to the DWR, offset by an unfavorable change of \$8 million in mark-to-market earnings on long-term forward contracts with RBS Sempra Commodities and other counterparties, \$3 million of higher income tax expense related to Mexican currency translation and inflation adjustments and \$2 million of lower interest income.

### ***Sempra Pipelines & Storage***

Net income for Sempra Pipelines & Storage increased by \$17 million (52%) in the six months ended June 30, 2008 to \$50 million, and by \$7 million (41%) in the three months ended June 30, 2008 to \$24 million. The increase for the six months ended June 30, 2008 was primarily due to \$14 million from the start-up of Rockies Express-West during the first quarter of 2008, \$6 million from improved operations and \$4 million from increased favorable foreign currency exchange-rate effects from its investments in Chile and Peru, offset by \$7 million of higher taxes on foreign income.

The increase for the three months ended June 30, 2008 was primarily due to \$9 million from the start-up of Rockies Express-West, \$3 million from improved operations and \$2 million from increased favorable foreign currency exchange-rate effects from its investments in Chile and Peru, offset by \$7 million of higher taxes on foreign income.

### ***Sempra LNG***

The net loss for Sempra LNG increased by \$14 million (61%) in the six months ended June 30, 2008 to \$37 million, and by \$15 million (115%) in the three months ended June 30, 2008 to \$28 million. The increased loss in the six months ended June 30, 2008 was primarily due to \$14 million of higher income tax expense related to Mexican currency translation and inflation adjustments and \$10 million of increased mark-to-market loss related to a natural gas marketing agreement with RBS Sempra Commodities, partially offset by a \$10 million after-tax cash payment received for the early termination of a capacity agreement with Merrill Lynch Commodities Inc. for the Cameron LNG receipt terminal. On May 31, 2008, Sempra LNG repaid \$690 million of outstanding intercompany debt, which will reduce future Mexican currency translation gains and losses from Sempra LNG. In May 2008, Sempra LNG began earning capacity revenues for Energía Costa Azul.

The increased loss in the three months ended June 30, 2008 was primarily due to \$8 million of increased mark-to-market loss related to the natural gas marketing agreement with RBS Sempra Commodities and \$8 million of higher income tax expense related to Mexican currency translation and inflation adjustments.

### ***Parent and Other***

The net loss for Parent and Other increased by \$17 million (113%) in the six months ended June 30, 2008 to \$32 million, and by \$28 million (467%) in the three months ended June 30, 2008 to \$22 million. The increased net losses were primarily attributable to an \$18 million gain from an interest-rate swap in 2007 and higher income tax expense in 2008, offset by \$9 million lower interest expense in 2008 related to litigation reserves. In addition, the higher net loss in the six months ended June 30, 2008 was due to lower net interest expense overall, excluding the amounts related to litigation reserves.

## CAPITAL RESOURCES AND LIQUIDITY

The company expects its cash flows from operations to provide a substantial portion of the funding of the company's capital expenditures and dividends. The company's expansion also requires the issuance of securities from time to time. In July 2008, the company announced its acquisition of EnergySouth, Inc. (EnergySouth) for \$510 million. The transaction is expected to close by year-end and will be funded by operating cash flow and debt.

On April 1, 2008, the company completed the formation of their previously announced partnership, RBS Sempra Commodities, to own and operate Sempra Energy's commodity-marketing businesses, which generally comprised the Sempra Commodities segment. RBS is to provide the joint venture with all growth capital, working-capital requirements and credit support. The company's initial equity contribution to the partnership was \$1.6 billion, and RBS made an initial equity contribution of \$1.665 billion. As a result of the transaction, the company received cash of approximately \$1.2 billion, net of its contribution. The company accounts for its investment in the partnership under the equity method. The company and RBS intend that RBS Sempra Commodities will distribute all of its net income on an annual basis, although the distributions are within the discretion of the board of directors of the partnership. In limited cases, earnings allocable to the partnership may be retained by the partnership to replenish capital depleted through losses. Additional information concerning the transaction with RBS is provided in Notes 3 and 5 of the Notes to Condensed Consolidated Financial Statements herein.

On April 1, 2008, the company entered into a share repurchase program and prepaid \$1 billion on April 7, 2008 for shares of the company's common stock to be purchased in a share forward transaction as discussed in Note 4 of the Notes to Condensed Consolidated Financial Statements herein. The company expects to purchase an additional \$500 million of common shares in 2009, which may require additional borrowings, including a hybrid capital issuance.

On May 22, 2008, the company's board of directors approved an increase to the company's quarterly common stock dividend to \$0.35 per share (\$1.40 annually), an increase of \$0.03 per share (\$0.12 annually) from the \$0.32 per share (\$1.28 annually) authorized in February 2008, and targets an annual dividend payout ratio of 35 percent to 40 percent of net income.

At June 30, 2008, the company had \$230 million in unrestricted cash and cash equivalents, and \$4.1 billion in available unused, committed lines of credit to provide liquidity and support commercial paper. Management believes that these amounts and cash flows from operations, distributions from equity method investments and security issuances, combined with current cash balances, will be adequate to finance capital expenditures and meet liquidity requirements and to fund shareholder dividends and anticipated share repurchases, any new business acquisitions or start-ups, and other commitments. If cash flows from operations were to be significantly reduced or the company were to be unable to raise funds under acceptable terms, neither of which is considered likely, the company would be required to reduce non-utility capital expenditures, share repurchases and/or investments in new businesses. Management continues to regularly monitor the company's ability to finance the needs of its operating, investing and financing activities in a manner consistent with its intention to maintain strong, investment-quality credit ratings.

The company's credit agreements are discussed more fully in Note 5 of the Notes to Condensed Consolidated Financial Statements herein and in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

At the Sempra Utilities, cash flows from operations, security issuances and/or capital contributions by Sempra Energy are expected to continue to be adequate to meet utility capital expenditure requirements.

As a result of SDG&E's projected capital expenditure program, SDG&E has elected to suspend the payment of dividends on its common stock to Sempra Energy, and the level of future common dividends may be affected in order to maintain SDG&E's authorized capital structure during periods of increased capital expenditures.

Sempra Generation's long-term power sale contracts may contain collateral requirements. The DWR contracts do not contain such requirements. The collateral arrangements provide for Sempra Generation and/or the counterparty to post cash, guarantees or letters of credit to the other party for exposure in excess of established thresholds. Sempra Generation may be required to provide collateral when market price movements adversely affect the counterparty's cost of replacement energy supplies were Sempra Generation to fail to deliver the contracted amounts. As of June 30, 2008, Sempra Generation had no outstanding collateral requirements under these contracts.

Sempra Pipelines & Storage is expected to require funding from the company or external sources, or both, to continue its Liberty Gas Storage facility and other natural gas storage projects, its participation in the development of Rockies Express Pipeline (REX), a natural gas pipeline, and its planned development of pipelines to serve the Sempra LNG facility being developed in Louisiana. The sale of interests in Argentina is expected to provide cash for company projects.

Sempra LNG will require funding for its development of LNG receiving facilities. While the company's credit facilities and other Sempra Energy sources are expected to be adequate for these requirements, the company may decide to use project financing if management determines its use to be advantageous. As the projects currently under construction are put in service, Sempra LNG is expected to provide operating cash flow for further development.

#### CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities decreased by \$815 million (49%) to \$860 million for 2008. The change was primarily due to an \$830 million decrease in net trading assets in 2007.

For the six months ended June 30, 2008, the company made contributions of \$15 million and \$16 million to the pension plans and other postretirement benefit plans, respectively.

#### CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used in investing activities increased by \$279 million (32%) to \$1.2 billion for 2008. The change was primarily due to the capital contributions of \$1.6 billion to RBS Sempra Commodities and \$150 million to Rockies Express and the purchase of \$413 million in industrial revenue bonds, offset by \$2.1 billion in proceeds received from the RBS transaction and a \$60 million decrease in notes receivable from unconsolidated affiliates. The \$2.1 billion in proceeds from the RBS transaction is net of \$383 million of cash sold. Capital expenditures also increased by \$225 million.

The company expects to make capital expenditures and investments of \$2.6 billion in 2008. Significant capital expenditures and investments are expected to include \$1.1 billion for Sempra Utility plant improvements and \$1.5 billion of capital expenditures at its other subsidiaries, including the development of LNG facilities and natural gas pipelines and the acquisition of EnergySouth. These expenditures and investments are expected to be financed by cash flows from operations, cash on hand and security issuances. The \$2.6 billion does not include the investment in RBS Sempra Commodities made on April 1, 2008, nor the investment in industrial revenue bonds.

The company's 25-percent participation in the Rockies Express project required a contribution to the partnership of \$150 million in February 2008, but the company does not expect any further contribution to the project will be required in 2008. Total project cost is now estimated at \$5.6 billion. REX-West, the segment of the pipeline which extends 713 miles from the Cheyenne Hub to Audrain County in Missouri, began interim service in January and full service in May 2008. In June 2008, the FERC approved construction of REX-East, which will extend the pipeline from Audrain County to Clarington in Ohio. Construction began on July 16, 2008. Subject to receipt of regulatory approvals, REX-East is expected to begin interim service to the Lebanon Hub in Warren County, Ohio by December 31, 2008, and be fully operational in the third quarter of 2009.

Liberty, as currently permitted, is a 17 billion cubic feet (Bcf) salt-cavern natural gas storage facility located in Calcasieu Parish, Louisiana. The facility has been under construction by the company and its 25-percent partner, Proliance Transportation and Storage, LLC, and will be connected to the Cameron and Port Arthur Pipelines under development by Sempra Pipelines & Storage to connect area LNG regasification terminals to an interstate gas transmission system. The estimated project cost is approximately \$250 million, of which \$195 million has been expended through June 30, 2008. Pipeline and compressor systems are currently in operation and can provide transportation services. Liberty is expected to be able to provide 12 Bcf of storage beginning in the third quarter of 2008.

Sempra LNG's Energía Costa Azul LNG receipt terminal in Baja California, Mexico, with a capacity of 1 Bcf per day, began commercial operations in May 2008. A planned nitrogen-injection facility will allow the terminal to process LNG cargoes from a wider variety of sources and will provide additional revenue from long-term firm capacity payments for the injection service. Through June 30, 2008, Sempra LNG has made expenditures of \$1.1 billion related to the terminal (including breakwater), the nitrogen-injection facility and the proposed expansion project.

Sempra LNG's Cameron LNG receipt terminal is currently under construction in Hackberry, Louisiana. Construction is expected to be completed in late 2008 with capacity revenues starting in early 2009. The estimated costs of this project, including capitalized interest, are approximately \$800 million (excluding pre-expansion costs, which are \$42 million to date). Through June 30, 2008, Sempra LNG has made expenditures of \$719 million related to the terminal and proposed expansion project.

#### CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities decreased by \$253 million (64%) to \$140 million for 2008. The change was primarily due to the \$1 billion expended for the stock repurchase program, offset by an increase in issuances of long-term debt of \$589 million, a \$581 million decrease in payments of long-term debt and \$122 million increased short-term debt borrowings.

#### COMMITMENTS

At June 30, 2008, there were no significant changes to the commitments that were disclosed in the Annual Report, except for increases of \$101 million and \$17 million, respectively, related to construction commitments at Sempra LNG and Sempra Pipelines & Storage, \$236 million related to an operating lease commitment at Sempra LNG, \$500 million related to the issuance of 6.15-percent notes and \$1.2 billion related to natural gas contracts at SoCalGas. The future payments under these contractual commitments are expected to be \$739 million for 2008, \$428 million for 2009, \$42 million for 2010, \$29 million for 2011, \$30 million for 2012 and \$773 million thereafter.

Due to increases in natural gas prices, the company's commitment under the natural gas purchase agreement with Tangguh PSC contractors, which is discussed in Note 16 of the Notes to Consolidated

Financial Statements in the Annual Report, has increased by \$11.6 billion. Future payments are therefore expected to increase by \$326 million for 2009, \$445 million for 2010, \$369 million for 2011, \$395 million for 2012 and \$10.1 billion thereafter.

Also, commitments related to the company's commodity-marketing businesses became the obligation of RBS Sempra Commodities as a result of the formation of that partnership. At December 31, 2007, these obligations totaled \$586 million, including \$422 million in short-term debt, \$143 million in operating leases and \$21 million in long-term debt.

## **FACTORS INFLUENCING FUTURE PERFORMANCE**

The Sempra Utilities' operations and Sempra Generation's long-term contracts generally provide relatively stable earnings and liquidity. However, for the next few years SDG&E is planning to reinvest its earnings in significant capital projects and is not expected to pay common dividends to Sempra Energy during that time. Also, Sempra Generation's contract with the DWR, which provides a significant portion of Sempra Generation's revenues, ends in late 2011. Due to the inability to forecast with certainty future electricity prices and the cost of natural gas, contracts entered into to replace this capacity may provide substantially lower revenue. Sempra LNG and Sempra Pipelines & Storage are expected to provide relatively stable earnings and liquidity upon the completion of their construction programs, but to require substantial funding during the construction period. Also, until firm supply or capacity contracts are in place and effective for Sempra LNG's Cameron and Energía Costa Azul LNG regasification facilities, Sempra LNG will seek to obtain interim LNG supplies, which may result in greater variability in revenues and earnings.

As discussed in Note 3 of the Notes to Condensed Consolidated Financial Statements herein, on April 1, 2008, the company and RBS completed the formation of a partnership, RBS Sempra Commodities, to own and operate the company's commodity-marketing businesses, which generally comprise the company's Sempra Commodities segment. This transaction will eliminate the company's requirements for trading guarantees and credit support for this business. The company expects somewhat lower earnings from the commodities business in the near term due to its reduced ownership after the formation of the partnership.

Notes 7 and 8 of the Notes to Condensed Consolidated Financial Statements herein and Notes 14 through 16 of the Notes to Consolidated Financial Statements in the Annual Report also describe matters that could affect future performance.

### **Litigation**

Note 8 of the Notes to Condensed Consolidated Financial Statements herein and Note 16 of the Notes to Consolidated Financial Statements in the Annual Report describe litigation, the ultimate resolution of which could have a material adverse effect on future performance.

### **Sempra Utilities**

Note 7 of the Notes to Condensed Consolidated Financial Statements herein and Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report describe electric and natural gas regulation and rates, and other pending proceedings and investigations.

## Sempra Global

On July 28, 2008, the company announced an agreement to acquire EnergySouth based in Mobile, Alabama, for \$510 million in cash. Shareholders of EnergySouth will receive \$61.50 per share for their common stock. The acquisition is expected to be completed in late 2008.

Principal holdings of EnergySouth include EnergySouth Midstream, Inc. (EnergySouth Midstream) and Mobile Gas Service Corp.

EnergySouth Midstream is the general partner in and 91-percent owner of Bay Gas Storage Company (Bay Gas), a facility located 40 miles north of Mobile that provides underground storage and delivery of natural gas. It is the easternmost storage facility on the Gulf Coast, with direct service to the Florida market. Currently, Bay Gas has 11.4 Bcf of working natural gas storage capacity that is fully contracted and operational. An additional 5 Bcf is 92-percent contracted and under construction with a scheduled first-quarter 2010 in-service date. There are plans to increase the total Bay Gas capacity to 27 Bcf of underground salt-dome storage.

EnergySouth Midstream also owns 60 percent of Mississippi Hub, LLC (Mississippi Hub), a company developing high-turn, underground salt-dome natural gas storage in Simpson County, Mississippi. This facility has planned direct interconnections to the natural gas production areas in eastern Texas, Oklahoma and Arkansas, as well as the Northeast market. Currently, Mississippi Hub's first 6 Bcf of storage capacity is in construction. Long-term commitments are in place for 4 Bcf of this capacity. Operations are slated to commence in the second quarter of 2010. There are plans to increase the total Mississippi Hub capacity to 30 Bcf of high-turn, salt-dome storage.

Mobil Gas Service Corp., an Alabama natural gas distribution utility, serves approximately 93,000 customers in southwest Alabama.

Sempra Pipelines & Storage's expansion of existing pipelines in Baja California, Mexico and the spur line to provide service to Sempra LNG's Energía Costa Azul terminal with interconnections to the U.S. border were placed in service in the second quarter of 2008.

On July 24, 2008, Sempra Generation announced the planned development of a solar-energy project, a 10-megawatt (MW) photovoltaic power-generation site next to the company's El Dorado Energy power plant near Boulder City, Nevada. The project is expected to be completed by year-end.

Sempra Generation is no longer planning to construct a proposed 600-MW natural gas-fired generation plant, Catocin Power, in Adamstown, Maryland.

As discussed in "Cash Flows From Investing Activities," the company's investments will significantly impact the company's future performance. Information regarding these investments is provided in "Capital Resources and Liquidity" herein and "Capital Resources and Liquidity" and "Factors Influencing Future Performance" in the Annual Report.



## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Certain accounting policies are viewed by management as critical because their application is the most relevant, judgmental and/or material to the company's financial position and results of operations, and/or because they require the use of material judgments and estimates. These accounting policies are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

The company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

## **NEW ACCOUNTING STANDARDS**

Recently issued pronouncements that have had or may have a significant effect on the company's financial statements are described in Note 2 of the Notes to Condensed Consolidated Financial Statements herein.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

On April 1, 2008, Sempra Energy and The Royal Bank of Scotland (RBS) completed the formation of their previously announced partnership, RBS Sempra Commodities LLP, to own and operate the commodity-marketing businesses previously held as subsidiaries of Sempra Energy. The company accounts for its investment in the partnership under the equity method. As a result of the transaction, Sempra Energy no longer holds directly the financial instruments related to these businesses that subjected the company to the market risk, commodities price risk and credit risk factors as discussed in the Annual Report.

As of June 30, 2008, the total VaR of the Sempra Utilities' positions was not material.

## **ITEM 4. CONTROLS AND PROCEDURES**

Company management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). The company has designed and maintains disclosure controls and procedures to ensure that information required to be disclosed in the company's reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, management recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives and necessarily applies judgment in evaluating the cost-bene fit relationship of other possible controls and procedures. In addition, the company has investments in unconsolidated entities accounted for using the equity method and consolidates a variable interest entity as defined in Financial Accounting Standards Board Interpretation No. 46(R) that it does not control or manage and consequently, its disclosure controls and procedures with respect to these entities are necessarily limited to oversight or monitoring controls that the company has implemented to provide reasonable assurance that the objectives of the company's disclosure controls and procedures as described above are met. Effective April 1, 2008, as discussed in Note 3 of the Notes to Consolidated Financial Statements herein, the company's commodity-marketing businesses are no longer wholly owned subsidiaries of the company. The company's ownership interests are reported on the equity method and are therefore subject to the controls and procedures applied to equity-method investments as discussed above.< /P>

There have been no changes in the company's internal control over financial reporting during the company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

The company evaluates the effectiveness of its internal control over financial reporting based on the framework in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the company evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of June 30, 2008, the end of the period covered by this report. Based on that evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures were effective at the reasonable assurance level.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Los Angeles Regional Water Quality Control Board has asserted violations of the California Water Code by SoCalGas in connection with certain maintenance activities in Los Angeles County's Sullivan Canyon. In June 2008, the board dismissed without prejudice a related lawsuit to provide an opportunity for the parties to resolve this matter without litigation. SoCalGas believes that the resolution will impose upon it fines and penalties of no more than \$750,000.

On July 13, 2007, SDG&E, one of its employees, and an SDG&E contractor were convicted in a federal jury trial on criminal charges of environmental violations in connection with the 2000 – 2001 dismantlement of a natural gas storage facility. SDG&E was also convicted of a related charge of making a false statement to a governmental agency. SDG&E is subject to a maximum fine of \$2 million. On December 7, 2007, the trial court set aside all of the convictions and granted all of the defendants a new trial on all counts. The government has appealed the trial court's decision.

Except for the matters described in Notes 7 and 8 of the Notes to Condensed Consolidated Financial Statements herein, neither the company nor its subsidiaries are party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses.

### **ITEM 1A. RISK FACTORS**

There have been no material changes from risk factors as previously disclosed in the company's 2007 Annual Report on Form 10-K, except for a reduction in risks associated with Sempra Commodities as a result of the reduction of the company's interests in this business associated with the transaction with RBS discussed in Note 3 of the Notes to Condensed Consolidated Financial Statements herein.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### Purchases of Equity Securities:

On September 11, 2007, the board of directors authorized the repurchase of additional shares of the company's common stock provided that the amounts expended for such purposes do not exceed the greater of \$2 billion or amounts expended to purchase no more than 40 million shares.

On April 1, 2008, the company entered into a Collared Accelerated Share Acquisition Program with Merrill Lynch International under which the company has paid \$1 billion to repurchase shares of its common stock, as discussed in the company's Current Report on Form 8-K dated April 1, 2008 and in Note 4 of the Notes to Condensed Consolidated Financial Statements herein.

The following table sets forth information concerning purchases made by the company, from the programs authorized above, of its common stock during the second quarter of 2008:

	Total Number of Shares Purchased *	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs *	Maximum Dollar Value of Shares that may Yet be Purchased Under the Plans or Programs
April 2008	11,209,865	\$ *	11,209,865	
May 2008	4,198,096	\$ *	4,198,096	
	15,407,961	\$ *	15,407,961	\$1 billion remaining **

\* All shares were purchased under the Collared Accelerated Share Acquisition Program entered into on April 1, 2008. The weighted average cost to the company of shares purchased under the program will not be determinable until the completion of the program, expected to be in the fourth quarter. Additional information regarding the program is provided in Note 4 of the Notes to Condensed Consolidated Financial Statements herein.

\*\* The company's board of directors has authorized the repurchase of shares of the company's common stock provided that the amounts expended for such purposes do not exceed the greater of \$2 billion or amounts expended to purchase no more than 40 million shares. The company prepaid \$1 billion on April 7, 2008 for shares to be purchased under the Collared Accelerated Share Acquisition Program. Therefore, approximately \$1 billion remains authorized by the board for the purchase of additional shares, of which \$500 million is expected to be expended during 2009. The company also may, from time to time, purchase shares of its common stock from restricted stock plan participants who elect to sell a sufficient number of vesting restricted shares to meet minimum statutory tax withholding requirements.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

##### Proposal 1: Election of directors:

At the 2006 Annual Meeting, shareholders approved an amendment phasing in annual elections of all directors. Directors who are elected after the effective date of the amendment hold office until the next annual meeting and until a successor has been elected and qualified. Directors elected prior to the effective date of the amendment continue to hold office until the expiration of the staggered three-year terms for which they were elected. At the annual meeting of shareholders on May 22, 2008, the shareholders elected the following eight directors for a one-year term expiring in 2009.

Nominees	Votes For	Votes	
		Against	Abstentions
Richard A. Collato	210,646,658	5,720,460	3,976,746
Wilford D. Godbold, Jr.	211,729,751	4,662,122	3,951,991
Richard G. Newman	212,672,268	3,767,645	3,903,951
Carlos Ruiz Sacristán	212,542,830	3,873,430	3,927,604
William C. Rusnack	211,799,356	4,602,186	3,942,322
William P. Rutledge	210,034,088	6,411,927	3,897,849
Lynn Schenk	212,718,977	3,808,845	3,816,042
Neal E. Schmale	212,553,236	3,939,587	3,851,041

##### Proposal 2: Ratification of independent registered public accounting firm:

	Votes
Votes For	212,828,213
Votes Against	3,843,410
Abstentions	3,672,241

##### Proposal 3: Approval of 2008 Long Term Incentive Plan:

	Votes
Votes For	167,586,445
Votes Against	20,020,566
Abstentions	4,247,109
Broker Non-Vote	28,489,744

##### Proposal 4: Approval of Amended and Restated Articles of Incorporation:

	Votes
Votes For	210,309,385
Votes Against	5,039,358
Abstentions	4,995,121

**Proposal 5: Shareholder proposal entitled "Shareholder Say On Pay":**

	<b>Votes</b>
Votes For	73,666,070
Votes Against	107,980,861
Abstentions	10,203,035
Broker Non-Vote	28,493,898

**ITEM 6. EXHIBITS**

Exhibit 3 - Bylaws and Articles of Incorporation

- 3.1 Amended and Restated Articles of Incorporation of Sempra Energy effective May 23, 2008 (incorporated by reference from Appendix B to the 2008 Sempra Energy Definitive Proxy Statement, filed on April 15, 2008).
- 3.2 Amended Bylaws of Sempra Energy effective December 4, 2007 (incorporated by reference from Form 8-K filed on December 5, 2007, Exhibit 3(ii)).

Exhibit 10 - Material Contracts

- 10.1 Sempra Energy 2008 Long Term Incentive Plan (incorporated by reference from Appendix A to the 2008 Sempra Energy Definitive Proxy Statement, filed on April 15, 2008).
- 10.2 Form of Indemnification Agreement with Directors and Executive Officers.
- 10.3 Form of Sempra Energy 2008 Long Term Incentive Plan, 2008 Performance-Based Restricted Stock Unit Award.
- 10.4 Form of Sempra Energy 2008 Long Term Incentive Plan, 2008 Nonqualified Stock Option Agreement.
- 10.5 Form of Sempra Energy 2008 Non-Employee Directors' Stock Plan, Nonqualified Stock Option Agreement.
- 10.6 Sempra Energy Amended and Restated Executive Life Insurance Plan.
- 10.7 Sempra Energy Amended and Restated Sempra Energy Retirement Plan for Directors.
- 10.8 Sempra Energy Amendment and Restatement of the Cash Balance Restoration Plan.

Exhibit 12 - Computation of ratios

- 12.1 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

Exhibit 31 -- Section 302 Certifications

31.1 Statement of Registrant's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

31.2 Statement of Registrant's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

Exhibit 32 -- Section 906 Certifications

32.1 Statement of Registrant's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.

32.2 Statement of Registrant's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

Exhibit 99 -- Unaudited Pro Forma Condensed Consolidated Financial Information

99.1 Unaudited Pro Forma Condensed Statement of Consolidated Income for the Six Months Ended June 30, 2008.

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.

SEMPRA ENERGY,  
(Registrant)

Date: August 7, 2008

By: /s/ Joseph A. Householder  
\_\_\_\_\_  
Joseph A. Householder  
Senior Vice President, Controller and Chief  
Accounting Officer

**SEMPRA ENERGY**  
**101 Ash Street**  
**San Diego, California 92101**

[date]

[name]  
[address]

**Re: Indemnification and Insurance**

Dear \_\_\_\_\_,

The Board of Directors of Sempra Energy (the “Company”) has investigated the availability and sufficiency of liability insurance and statutory indemnification provisions to provide directors, officers, employees and other agents of the Sempra Energy Companies with appropriate protection against the various legal risks and potential liabilities to which their positions subject them. It has concluded that liability insurance and statutory indemnification provisions may provide inadequate and unacceptable protection.

Accordingly, to attract and retain the services of highly experienced and capable individuals such as you, the Company’s Board of Directors has determined (after due consideration and investigation of the terms and provisions of this agreement) that it is not only reasonable and prudent but also essential to the best interests of the Company and its shareholders to provide the additional protective measures contemplated by this agreement.

Therefore, the Board of Directors has authorized the Company to enter into the following agreement with you:

1. **Definitions.** For purposes of this agreement:

(a) The term “agent of the Company” means any person who is or was a director, officer, employee or other agent of one or more Sempra Energy Companies, or is or was serving at the request of the Company as a director, officer, employee or other agent of another corporation, partnership, joint venture, trust or other enterprise, in each case whether or not such person is serving in such capacity at the time any expense, liability or settlement amount is incurred for which indemnification or advances of expenses are to be provided under this agreement.

(b) A “change in control” of the Company shall be deemed to have occurred when:

(i) Any person is or becomes the beneficial owner (as that term is defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company’s then outstanding securities; or

(ii) The following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board of Directors of the Company and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board of Directors or nomination for election by the Company’s shareholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or

(iii) There is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least sixty percent (60%) of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar trans action) in which no person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by any such person any securities acquired directly from the Company or its affiliates other than in



connection with the acquisition by the Company or its affiliates of a business) representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities; or

(iv) The shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least sixty percent (60%) of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

(c) The term "expenses" includes, without limitation, fees (statutory or otherwise), disbursements and retainers of attorneys, accountants, witnesses and experts, travel and deposition costs, expenses of investigations, judicial or administrative proceedings and appeals and other expenses actually and reasonably incurred by you in connection with any proceeding or in establishing your rights to indemnification by the Company pursuant to this agreement or otherwise and, to the extent you are not otherwise compensated by a Sempra Energy Company or any third party, reasonable compensation for time spent by you in connection with any of the foregoing. The term "expenses" does not include liabilities or settlement amounts.

(d) The term "liabilities" includes, without limitation, judgments, fines, penalties, excise taxes under the Employee Retirement Income Security Act of 1974 and other monetary liabilities levied or assessed against you in connection with any proceeding. The term "liabilities" does not include expenses or settlement amounts.

(e) The term "person" shall have the meaning given in section 3(a)(9) of the Securities Exchange Act of 1934, as modified and used in sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of the Company, or (v) a person or group as used in Rule 13d-1(b) under the Securities Exchange Act of 1934.

(f) The term "proceeding" includes, without limitation, any threatened, pending or completed action, suit or other proceeding (whether formal or informal, whether brought by or in the name or right of a Sempra Energy Company or otherwise and whether of a civil, criminal, administrative, investigative or other nature) to which you are party, are threatened to be made a party or are otherwise involved by reason of the fact that you are or were an agent of the Company.

(g) The term "reviewing party" means the person or body appointed in accordance with Section 5 of this agreement.

(h) The term "Sempra Energy Companies" means the Company and its subsidiaries and any other corporation, partnership, joint venture, trust or other enterprise directly or indirectly controlled (by possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such enterprise, through the ownership of voting securities or otherwise) by the Company, and the term a "Sempra Energy Company" means any of the Sempra Energy Companies.

(i) The term "settlement amounts" includes, without limitation, all amounts actually and reasonably incurred by you in settling or otherwise disposing of any proceeding. The term settlement amounts do not include expenses or liabilities.

2. **Agreement to Serve.** You agree to continue to serve the Sempra Energy Companies as a director, officer or employee for so long as you are retained in such positions or until such time as you tender your resignation or are removed or terminated from such positions.

3. **Indemnification in Third Party Proceedings.** The Company shall indemnify you against all expenses, liabilities and settlement amounts incurred by you in connection with any proceeding (other than a proceeding by or in the name or right of a Sempra Energy Company to procure a judgment in its favor) by reason of the fact that you are or were an agent of the Company; provided, however, that the Company shall not be required to indemnify you in respect of any settlement amounts incurred by you that are not approved by the Company.

4. **Indemnification in Proceedings By or In the Name or Right of a Sempra Energy Company.** The Company shall indemnify you against all expenses, liabilities and settlement amounts incurred by you in connection with any proceeding by or in the name or right of a Sempra Energy Company to procure a judgment in its favor.

5. **Conclusive Presumption Regarding Standards of Conduct.** You shall be conclusively presumed to have met all relevant standards of conduct (if any) of applicable law for indemnification pursuant to this agreement, unless a determination is made that you have not met such standards by the reviewing party. Before any change in control of the Company, the reviewing party shall be any appropriate person or body consisting of a member or members of the Board of Directors of the Company or any other person or body appointed by the Board of Directors of the Company who is not a party to the proceeding with respect to which you are seeking indemnification; after a change in control of the Company, the reviewing party shall be the independent counsel.

With respect to all matters arising after a change in control of the Company concerning your right to indemnification under this agreement or any other agreement or under applicable law or the Company's Articles of Incorporation or Bylaws now or hereafter in effect relating to indemnification for indemnifiable events, the Company shall seek legal advice only from independent counsel selected by you and approved by the Company, the approval of whom shall not be unreasonably withheld, and who has not otherwise performed services for the Company or you (other than in connection with indemnification matters) within the last five

years. The independent counsel shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or you in an action to determine your rights under this agreement. The independent counsel, among other things, shall render a written opinion to the Company and you as to whether and to what extent you should be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the independent counsel and to indemnify fully such counsel against any and all expenses, including attorneys' fees, claims, liabilities, loss, and damages arising out of or relating to this agreement or the engagement of independent counsel under this agreement.

6. ***Indemnification of Expenses of Successful Party.*** Notwithstanding any other provision of this agreement, to the extent that you have been successful in defense of any proceeding or in defense of any claim, issue or matter therein, on the merits or otherwise (including, without limitation, the dismissal thereof without prejudice or settlement thereof without an admission of liability), the Company shall indemnify you against all expenses incurred by you in connection therewith.

7. ***Partial Indemnification.*** If you are entitled under any provision of this agreement to indemnification by the Company for a portion of the expenses, liabilities and settlement amounts incurred by you in connection with any proceeding but not, however, for the total amount thereof, the Company shall nevertheless indemnify you for the portion of your expenses, liabilities and settlement amounts to which you are entitled.

8. ***Advances of Expenses.*** Upon your written request and without regard to any determination made under Section 5 of this agreement, expenses incurred by you in connection with any proceeding shall be promptly advanced to you by the Company prior to the final disposition of the proceeding subject to your written undertaking to repay any advances if it is ultimately determined that you are not entitled to indemnification in respect of such expenses.

9. ***Indemnification Procedure; Determination of Right to Indemnification.***

(a) You will promptly notify the Company in writing after your receipt of notice of the commencement of any proceeding in respect of which a claim is to be made against the Company under this agreement; provided, however, your omission so to notify the Company shall not relieve the Company from any liability which it may have to you under this agreement except and to the extent that the Company establishes by clear and convincing evidence that such omission was materially prejudicial to the Company and shall not relieve the Company from any liability which it may otherwise have to you. You will also provide the Company with such information and cooperation with respect to the proceeding as it may reasonably request.

(b) If a claim by you for indemnification or for advances of expenses under this agreement is not paid by the Company within 30 days of the Company's receipt of your written request for payment, your rights to indemnification and advances as provided by this agreement shall be enforceable by you in any court of competent jurisdiction. In any such action, you shall be presumed to be entitled to indemnification and advances of expenses and the Company shall be required to establish by clear and convincing evidence that you are not so entitled or that such indemnification and advancement of expenses is prohibited under applicable law.

(c) The expenses incurred by you in connection with any action concerning your right to indemnification or advances of expenses in whole or in part pursuant to this agreement shall also be indemnified by the Company regardless of the outcome of such an action, unless a court of competent jurisdiction determines that each of the material assertions made by you in such action were not made in good faith or were frivolous.

(d) With respect to any proceeding for which indemnification or advances of expenses is requested pursuant to this agreement, the Company will be entitled to participate therein at its own expense and, except as otherwise provided below, may assume the defense thereof with counsel satisfactory to you. You shall have the right to employ your own counsel in any proceeding, but the Company will not be liable to you under this agreement for any fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense of the proceeding unless (i) the employment of counsel by you has been authorized by the Company, (ii) you shall have reasonably concluded that there may be a conflict of interest between the Company and you in the conduct of the defense of the proceeding, or (iii) the Company shall not in fact have employed counsel to assume the defense of the proceeding. The Company shall not be entitled to assume the defense of any proceeding brought by or in the name or right of a Sempra Energy Company or any proceeding as to which you have concluded that there may be a conflict of interest between the Company and you and the Company shall not settle any proceeding in any manner which would impose any penalty or limitation on you without your written consent.

10. ***Limitations on Indemnification and Advances of Expenses.*** No indemnification or advances of expenses shall be made to you by the Company pursuant to this agreement:

(a) In connection with any proceeding initiated or brought voluntarily by you and not by way of defense, except with respect to actions brought to establish or enforce a right to indemnification or advances of expenses under this agreement or any statute or other law or otherwise as required under applicable law, but such indemnification or advances of expenses may be provided by the Company in specific cases if the Board of Directors finds it to be appropriate.

(b) To the extent that you are actually indemnified or expenses are actually advanced to you by the Company otherwise than pursuant to this agreement or by another Sempra Energy Company or an affiliate thereof.

(c)

To the extent that any expenses, liabilities or settlement amounts are actually paid or reimbursed to you pursuant to a valid and collectible insurance policy.

(d) In connection with any proceeding for an accounting of profits made from the purchase or sale by you of securities pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder and amendments thereto or similar provisions of any federal, state or local statutory law.

(e) To the extent that such indemnification or advances of expenses is determined to be prohibited under applicable law by a final and nonappealable judgment of a court of competent jurisdiction.

11. ***Maintenance of Liability Insurance.***

(a) The Company agrees that, subject to subsection (c), as long as you continue to serve as a director or officer of a Sempra Energy Company and thereafter as long as you may be subject to any possible proceeding, the Company shall on your behalf purchase and maintain in full force and effect directors' and officers' liability insurance in reasonable amounts and coverages from established and reputable insurers.

(b) In all directors' and officers' liability insurance policies, you shall be named as an insured in such a manner as to provide you with the same rights and benefits as are accorded to the most favorably insured of the Company's directors or officers.

(c) Notwithstanding the foregoing, the Company shall have no obligation to maintain directors' and officers' liability insurance on your behalf if the Company reasonably determines that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, the coverage provided by such insurance is so limited by exclusions that it provides an insufficient benefit, or you are covered by similar insurance maintained by another Sempra Energy Company or an affiliate thereof.

12. ***Additional Indemnification Rights; Nonexclusivity.*** Notwithstanding any other provision of this agreement, the Company agrees to indemnify and advance expenses to you to the highest extent permitted by applicable law, notwithstanding that such indemnification or advances are not specifically authorized by the other provisions of this agreement, the Company's Articles of Incorporation, the Company's Bylaws or by statute. In the event of any change, after the date of this agreement, in any applicable law, statute or rule which expands the right of a California corporation to indemnify or advance expenses to an agent of the Company, such changes shall be ipso facto within the purview of your rights and Company's obligations under this agreement. In the event of any change in applicable law, statute or rule which narrows the right of a California corporation to indemnify an agent of the Company, such changes, to the extent not otherwise required by such law, statute or rule to be applied to this agreement, shall have no effect on this agreement or your rights and the Company's obligations hereunder. The indemnification and advances of expenses provided by this agreement shall not be deemed exclusive of any rights to which you may be entitled under the Company's Articles of Incorporation, its Bylaws, any agreement, any vote of shareholders or disinterested directors, the California General Corporation Law, or otherwise, both as to action in your official capacity and as to action in another capacity while holding such office. The indemnification and advances of expenses provided under this agreement shall continue for any action taken or not taken by you while serving in an indemnified capacity even though you may have ceased to serve in such capacity at the time of any action or other covered proceeding.

13. ***Acknowledgment.*** Both you and the Company understand and acknowledge that in certain instances, applicable law or public policy may prohibit or otherwise limit the indemnification or advances of expenses intended to be provided by this agreement. You also understand and acknowledge that the Company has undertaken or may in the future undertake with the Securities and Exchange Commission in certain circumstances to submit to, and be bound by, a court determination of your right to indemnification contemplated by this agreement.

14. ***Successors and Assigns.*** This agreement shall be binding upon, and shall inure to your benefit and to the benefit of your heirs, executors, administrators and assigns, whether or not you have ceased to be an agent of the Company.

15. ***Separability.*** Each and every paragraph, sentence, term and provision of this agreement is separate and distinct so that if any paragraph, sentence, term or provision thereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this agreement may be modified by a court of competent jurisdiction to preserve its validity and to provide you with indemnification and advances of expenses in connection with any proceeding to the maximum extent permitted by applicable law.

16. ***Savings Clause.*** If this agreement or any paragraph, sentence, term or provision of this agreement is invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify you as to any expenses, liabilities and settlement amounts actually and reasonably incurred by you in connection with any proceeding to the fullest extent permitted by any applicable paragraph, sentence, term or provision of this agreement that has not been invalidated or by any provision of applicable law.

17. ***Interpretation; Governing Law.*** This agreement shall be construed as a whole and in accordance with its fair meaning. Headings are for convenience only and shall not be used in construing meaning. This agreement shall be governed and interpreted in accordance with the laws of the State of California.

18. **Amendments.** No amendment, waiver, modification, termination or cancellation of this agreement shall be effective unless in writing signed by the party against whom enforcement is sought. The rights afforded to you by this agreement are contract rights and may not be diminished, eliminated or otherwise affected by amendments to the Articles of Incorporation or Bylaws of the Company or by other agreements, including directors' and officers' insurance policies.

19. **Notices.** Any notice required to be given to the Company under this agreement shall be directed to the Company at its principal executive offices to the attention of the Company's General Counsel.

20. **Subject Matter.** The intended purpose of this agreement is to provide for indemnification, advances of expenses and insurance and this agreement is not intended to affect any other aspect of any relationship between you and the Sempra Energy Companies.

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If the foregoing is acceptable to you, please so indicate by signing the enclosed copy of this letter and returning it to the Company whereupon this letter shall become a binding agreement between you and the Company.

SEMPRA ENERGY

By: \_\_\_\_\_  
Donald E. Felsing

Its: Chairman and Chief  
Executive Officer

Enclosure

ACCEPTED:

\_\_\_\_\_

**SEMPRA ENERGY**  
**2008 LONG TERM INCENTIVE PLAN**  
**{YEAR} PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD**

You have been granted a performance-based restricted stock unit award representing the right to receive the number of shares of Sempra Energy Common Stock set forth below, subject to the vesting conditions set forth below. The restricted stock units, and dividend equivalents with respect to the restricted stock units, under your award may not be sold or assigned and will be subject to forfeiture unless and until they vest based upon the satisfaction of total shareholder return performance criteria for a performance period beginning on January 1, {YEAR} and ending in January {YEAR}. Shares of Common Stock will be distributed to you after the completion of the performance period ending in January {YEAR}, if the restricted stock units vest under the terms and conditions of your award.

*The terms and conditions of your award are set forth in the attached Year {YEAR} Restricted Stock Unit Award Agreement and in the Sempra Energy 2008 Long Term Incentive Plan, which is enclosed. The summary below highlights selected terms and conditions but it is not complete and you should carefully read the attachments to fully understand the terms and conditions of your award.*

**SUMMARY**

**Date of Award:**

**Name of Recipient:**

**Recipient's Employee Number:**

**Number of Restricted Stock Units (prior to any dividend equivalents):**

**At Target:**

**At Maximum (\_\_\_% of Target):**

**Award Date Fair Market Value per Share of Common Stock:**

**Restricted Stock Units:**

Your restricted stock units represent the right to receive shares of Common Stock in the future, subject to the terms and conditions of your award. Your restricted stock units are not shares of Common Stock. The target number of restricted stock units will vest (as described below), if the target total shareholder return (a return at the \_\_\_th percentile) is achieved. If above target total shareholder return is achieved, you may vest in up to the maximum number of restricted stock units.

**Vesting/Forfeiture of Restricted Stock Units:**

Your restricted stock units will vest only upon and only to the extent that the Compensation Committee determines and certifies that Sempra Energy has met specified total shareholder return performance criteria for the performance period beginning on January 1, {YEAR} and ending at the close of trading on the first New York Stock Exchange trading day of {YEAR}. Any restricted stock units that do not vest upon the Compensation Committee's determination and certification will be forfeited.

**Transfer Restrictions:**

Your restricted stock units may not be sold or otherwise transferred and will remain subject to forfeiture conditions until they vest.

**Termination of Employment:**

Your restricted stock units also may be forfeited if your employment terminates.

**Dividend Equivalents:**

You also have been awarded dividend equivalents with respect to your restricted stock units. Your dividend equivalents represent the right to receive additional shares of Common Stock in the future, subject to the terms and conditions of your award. Your dividend equivalents will be determined based on the dividends that you would have received, had you held shares of Common Stock equal to the vested number of your restricted stock units from the date of your award to the date of the distribution of shares of Common Stock following the vesting of your restricted stock units, and assuming that the dividends were reinvested in Common Stock (and any dividends on such shares were reinvested in Common Stock). The dividends will be deemed reinvested in Common Stock in the same manner as dividends reinvested pursuant to the terms of the Sempra Dividend Reinvestment Plan. Your dividend equivalents will be subject to the same transfer restrictions and forfeiture and vesting conditions as the shares represented by your restricted stock units.

**Distribution of Shares:**

Shares of Common Stock will be distributed to you to the extent your restricted stock units vest. The shares will be distributed to you after the completion of the performance period ending in January {YEAR} and the Compensation Committee's determination and certification of Sempra Energy's total shareholder return for the performance period. The shares of Common Stock will include the additional shares to be distributed pursuant to your dividend equivalents.

**Taxes:**

Upon distribution of shares of Common Stock to you, you will be subject to income taxes on the value of the distributed shares at the time of distribution and must pay applicable withholding taxes.

***To accept your award you must sign the accompanying copy of this page and promptly return it to Sempra Energy. By doing so, you agree to all of the terms and conditions set forth in this Cover Page/Summary, the attached Year {YEAR} Restricted Stock Unit Award Agreement and the Sempra Energy 2008 Long Term Incentive Plan.***

Recipient:

**X**

(Signature)

*/s/ Donald E. Felsing*

(Signature)

Chairman & Chief Executive Officer

Sempra Energy:

Title:



**SEMPRA ENERGY**  
**2008 LONG TERM INCENTIVE PLAN**

**Year {YEAR} Restricted Stock Unit Award Agreement**

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**Award:** You have been granted a performance-based restricted stock unit award under Sempra Energy's 2008 Long Term Incentive Plan. The award consists of the number of restricted stock units set forth on the Cover Page/Summary to this Agreement, and dividend equivalents with respect to the restricted stock units (described below).

Your restricted stock units represent the right to receive shares of Common Stock in the future, subject to the terms and conditions of your award. Your restricted stock units are not shares of Common Stock.

Each restricted stock unit represents the right to receive one share of Common Stock upon the vesting of the unit.

Unless and until they vest, your restricted stock units and any dividend equivalents (as described below) will be subject to transfer restrictions and forfeiture and vesting conditions.

Your restricted stock units (and dividend equivalents) will vest only upon and only to the extent that the Compensation Committee of Sempra Energy's Board of Directors determines and certifies that Sempra Energy has met specified total shareholder return criteria for the performance period beginning January 1, {YEAR} and ending in January {YEAR}. Any restricted stock units (and dividend equivalents) that do not vest upon the Compensation Committee's determination and certification will be forfeited.

Your restricted stock units (and dividend equivalents) also may be forfeited if your employment terminates before they vest.

See "Vesting/Forfeiture," "Transfer Restrictions," and "Termination of Employment" below.

**Vesting/Forfeiture:** Your restricted stock units (and dividend equivalents, as described below) will vest only upon and only to the extent that the Compensation Committee of Sempra Energy's Board of Directors determines and certifies that Sempra Energy has met the following total shareholder return performance criteria for the performance period beginning on January 1, {YEAR} and ending on the close of trading on the first New York Stock Exchange trading day of {YEAR}:

§ Your target number of restricted stock units will vest based on the percentile ranking of Sempra Energy's cumulative total shareholder return (consisting of per share appreciation in Common Stock plus dividends and other distributions paid on Common Stock), as determined and certified by the Compensation Committee, for the performance period among the companies (ranked by cumulative total shareholder returns) in the Standard & Poors 500 Utility Index.

§ The percentage of your target number of restricted stock units that vest will be determined as follows, based on the percentile ranking of Sempra Energy's cumulative total shareholder return among the companies (ranked by cumulative total shareholder returns) in the S&P 500 Utility Index, as determined and certified by the Compensation Committee.

Total Shareholder Return Percentile <u>Ranking</u>	Percentage of Target Number of Restricted <u>Stock Units that Vest</u>
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0

If the percentile ranking does not equal a ranking shown in the above table, the percentage of your target number of restricted stock units that vest will be determined by a linear interpolation between the next lowest percentile shown in the table and the next highest percentile shown on the table.

- If the percentile ranking is at or above the \_\_\_<sup>th</sup> percentile, \_\_\_% of your target number of restricted stock units will vest.
- If the percentile ranking is at or below the \_\_\_<sup>th</sup> percentile, none of your restricted stock units will vest.
- The Compensation Committee also will determine and certify the percentile ranking of Sempra Energy's cumulative total shareholder return (consisting of per share appreciation in Common Stock plus dividends and other distributions paid on Common Stock) for the performance period beginning on January 1, {YEAR} and ending on the close of trading on the first New York Stock Exchange trading day of {YEAR} among the companies (ranking by cumulative total shareholder returns) in the S&P 500 Composite Index. If the Compensation Committee determines and certifies that Sempra Energy's cumulative total shareholder return is at or above the \_\_\_<sup>th</sup> percentile among the companies in the S&P 500 Composite Index, the percentage of your target number of restricted stock units that vest will be not less than \_\_\_\_%.
- As soon as reasonably practicable following the end of the performance period, the Compensation Committee will determine and certify the extent to which Sempra Energy has met the performance criteria and the extent, if any, as to which your restricted stock units have then vested. You will receive the number of shares of Common Stock equal to the number of your vested restricted stock units after the Compensation Committee's determination and certification. Also, you will receive the number of shares of Common Stock equal to your dividend equivalents after the Compensation Committee's determination and certification. Certificates for the shares will be issued to you or transferred to an account that you designate. When the shares of Common Stock are issued to you, your restricted stock units (vested and unvested) and your dividend equivalents will terminate.
- Examples illustrating the application of the vesting provisions are shown in Exhibit A to this Award Agreement.

**Transfer Restrictions:**

You may not sell or otherwise transfer or assign your restricted stock units (or your dividend equivalents).

**Dividend Equivalents:**

You also have been awarded dividend equivalents with respect to your restricted stock units. Your dividend equivalents represent the right to receive additional shares of Common Stock in the future, subject to the terms and conditions of your award. Your dividend equivalents will be determined based on the dividends that you would have received, had you held shares of Common Stock equal to the vested number of your restricted stock units from the date of your award to the date of the distribution of shares of Common Stock following the vesting of your restricted stock units, and assuming that the dividends were reinvested in Common Stock (and any dividends on such shares were reinvested in Common Stock). The dividends will be deemed reinvested in Common Stock in the same manner as dividends reinvested pursuant to the terms of the Sempra Dividend Reinvestment Plan.

Your dividend equivalents will be subject to the same transfer restrictions and forfeiture and vesting conditions. Your dividend equivalents will vest when your restricted stock units vest.

Also, your restricted stock units (and dividend equivalents) will be adjusted to reflect stock dividends on shares of Common Stock or as the result of a stock-split, recapitalization, reorganization or other similar transaction in accordance with the terms and conditions of the 2008 Long Term Incentive Plan. Any additional restricted stock units (and dividend equivalents) awarded to you as a result of such an adjustment also will be subject to the same transfer restrictions, forfeiture and vesting conditions and other terms and conditions that are applicable to your restricted stock units.



**No Shareholder Rights:**

Your restricted stock units (and dividend equivalents) are not shares of Common Stock. You will have no rights as a shareholder unless and until shares of Common Stock are issued to you following the vesting of your restricted stock units (and dividend equivalents) as provided in this Agreement and the 2008 Long Term Incentive Plan.

**Distribution of Shares:**

As described in “Vesting/Forfeiture” above, the Compensation Committee will determine and certify the extent to which Sempra Energy has met the performance criteria and the extent, if any, as to which your restricted stock units have then vested.

You will receive the number of shares of Common Stock equal to the number of your restricted stock units that have vested. However, in no event will you receive under this award, and other awards granted to you under the 2008 Long Term Incentive Plan in the same fiscal year of Sempra Energy, more than the maximum number of shares of Common Stock permitted under the 2008 Long Term Incentive Plan. Also, you will receive the number of shares of Common Stock equal to your dividend equivalents after the Compensation Committee’s determination and certification.

You will receive the shares as soon as practicable following the Compensation Committee’s determination and certification (and in no event later than March 15, {YEAR}). Once you receive the shares of Common Stock, your vested and unvested restricted stock units (and dividend equivalents) will terminate.

**Termination of Employment:***§ Termination:*

If your employment with Sempra Energy and its subsidiaries terminates for any reason prior to the vesting of your restricted stock units (and dividend equivalents) (other than under the circumstances set forth in the next paragraph), all of your restricted stock units (and dividend equivalents) will be forfeited. The vesting of your restricted stock units does not occur until the date of the Compensation Committee’s determination and certification described above.

If your employment terminates after December 31, {YEAR} and at the date of termination you had both (a) attained age 55 and (b) completed five years of continuous service with Sempra Energy and its subsidiaries, your restricted stock units (and dividend equivalents) will not be forfeited but will continue to be subject to the transfer restrictions and vesting conditions and other terms and conditions of this Agreement.

*§ Leaves of Absence:*

Your employment does not terminate when you go on military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by your employer in writing. But your employment will be treated as terminating 90 days after you went on leave, unless your right to return to active work is guaranteed by law or by a contract. And your employment terminates in any event when the approved leave ends, unless you immediately return to active work. Your employer determines which leaves count for this purpose.

**Taxes:**

*The following is a general summary of the federal income tax consequences of your Restricted Stock Unit Award. The summary may not cover your particular circumstances because it does not consider foreign, state, local or other tax laws and does not describe future changes in tax rules. You are urged to consult your tax advisor regarding the specific tax consequences applicable to you rather than relying on this general summary.*

*§ Generally:*

You will not be subject to federal income taxes on your award until you receive shares of Common Stock following the vesting of your restricted stock units.

When you receive your shares, you will realize taxable income based on the fair market value of the shares at the time you receive the shares.

When you sell your shares you may also realize taxable gain (or loss) based upon the difference between the sales price and the amount that you have previously recognized as income.

*§ Withholding Taxes:*

When you become subject to income taxes upon your receipt of the shares of Common Stock, Sempra Energy or its subsidiary is required to withhold

taxes. Unless you instruct otherwise and pay or make arrangements satisfactory to Sempra Energy to pay these taxes, upon the distribution of your shares, Sempra Energy will withhold a sufficient number of the shares (valued at the distribution date fair market value) to cover the minimum required withholding taxes and transfer to you only the remaining balance of your shares.

**Retention Rights:**

Neither your restricted stock unit award nor this Agreement gives you any right to be retained by Sempra Energy or any of its subsidiaries in any capacity and your employer reserves the right to terminate your employment at any time, with or without cause. The value of your award will not be included as compensation or earnings for purposes of any other benefit plan offered by Sempra Energy or any of its subsidiaries.

**Change in Control:**

Subject to certain limitations set forth in the 2008 Long Term Incentive Plan, in the event of a Change in Control (as defined in the plan) of Sempra Energy during the performance period beginning on January 1, {YEAR} and ending on the first New York Stock Exchange trading day of {YEAR}, unless your restricted stock units have been forfeited prior to the Change in Control, \_\_\_% of your target number of restricted stock units will vest in the event of a Change in Control.

You will receive the number of shares of Common Stock equal to the number of your restricted stock units that have vested. Also, you will receive the number of shares of Common Stock equal to your dividend equivalents. You will receive the shares of Common Stock immediately prior to the Change in Control.

Upon the Change in Control, your vested and unvested restricted stock units (and dividend equivalents) will terminate.

**Further Actions:**

You agree to take all actions and execute all documents appropriate to carry out the provisions of this Agreement.

You also appoint as your attorney-in-fact each individual who at the time of so acting is the Secretary or an Assistant Secretary of Sempra Energy with full authority to effect any transfer of any shares of Common Stock distributable to you, including any transfer to pay withholding taxes, that is authorized by this Agreement.

**Applicable Law:**

This Agreement will be interpreted and enforced under the laws of the State of California.

**Other Agreements:**

In the event of any conflict between the terms of this Agreement and any written employment, severance or other employment-related agreement between you and Sempra Energy, the terms of this Agreement, or the terms of such other agreement, whichever are more favorable to you, shall prevail.

***By signing the Cover Sheet/Summary of this Agreement, you agree to all of the terms and conditions described above and in the 2008 Long Term Incentive Plan***

**Examples Illustrating the Determination  
of the Vested Percentage of the  
Target Number of Restricted Stock Units**

The following examples illustrate how the percentage of the target number of restricted stock units is to be determined. The examples assume that Sempra Energy achieves certain total cumulative shareholder returns for the performance period. The vested percentage of your target number of restricted stock units will be determined based on Sempra Energy's actual cumulative total shareholder return for the performance period. No assurance is given that Sempra Energy will achieve the cumulative total shareholder returns shown in the examples.

**Example 1**

Sempra Energy's total cumulative shareholder return for the performance period among the companies (ranked by total shareholder returns) in the S&P 500 Utility Index, as determined and certified by the Compensation Committee, is at the \_\_\_<sup>th</sup> percentile.

Because Sempra Energy's cumulative total cumulative shareholder return is above the \_\_\_<sup>th</sup> percentile, \_\_\_% of the target number of restricted stock units vest. This is the maximum number of restricted stock units under the award.

**Example 2**

Sempra Energy's cumulative total shareholder return for the performance period among the companies (ranked by total shareholder returns) in the S&P 500 Utility Index, as determined and certified by the Compensation Committee, is at the \_\_\_<sup>th</sup> percentile.

The percentage of the target number of restricted stock units that vest is determined by a linear interpolation between the percentage based on the achievement of the \_\_\_<sup>th</sup> percentile (\_\_\_%) and the percentage based on the achievement of the \_\_\_<sup>th</sup> percentile (\_\_\_%).

The percentage is determined as follows:

(a) \_\_\_% (the percentage based on the achievement of the \_\_\_<sup>th</sup> percentile), plus

(b) \_\_\_% (the percentage based on the achievement of the \_\_\_<sup>th</sup> percentile, less the percentage based on the achievement of the \_\_\_<sup>th</sup> percentile), multiplied by an interpolation factor.

The interpolation factor equals (\_\_\_<sup>th</sup> percentile, less \_\_\_<sup>th</sup> percentile), divided by (\_\_\_<sup>th</sup> percentile, less \_\_\_<sup>th</sup> percentile), or \_\_\_\_ (\_\_\_).

The percentage based on the achievement of the \_\_\_<sup>th</sup> percentile equals: (a) \_\_\_%, plus (b) \_\_\_%, multiplied by \_\_\_\_, or \_\_\_\_%. Based on Sempra Energy's cumulative total shareholder return, \_\_\_% of the target number of restricted stock units vest.

**Example 3**

Sempra Energy's cumulative total shareholder return for the performance period among the companies (ranked by total shareholder returns) in the S&P 500 Utility Index, as determined and certified by the Compensation Committee, is at the \_\_\_<sup>th</sup> percentile.

Sempra Energy's cumulative total shareholder return for the performance period among the companies (ranked by total shareholder returns) in the S&P 500 Composite Index, as determined and certified by the Compensation, is at or above the \_\_\_<sup>th</sup> percentile.

Because Sempra Energy's cumulative total shareholder return is at the \_\_\_<sup>th</sup> percentile when ranked among the companies in the S&P 500 Utility Index, \_\_\_% of the target number of restricted stock units would vest (before taking into account Sempra Energy's performance among the companies in the S&P 500 Composite Index).

However, because Sempra Energy's cumulative total shareholder return is at or above the \_\_\_<sup>th</sup> percentile when ranked among the companies in the S&P 500 Composite Index, \_\_\_% of the target number of restricted stock units vest.

**Example 4**

Sempra Energy's cumulative total shareholder return for the performance period among the companies (ranked by total shareholder returns) in the S&P 500 Utility Index, as determined and certified by the Compensation Committee, is at the \_\_\_<sup>th</sup> percentile.

Also, Sempra Energy's total shareholder return for the performance period among the companies (ranked by cumulative total shareholder returns) in the S&P 500 Composite Index, as determined and certified by the Compensation Committee, is below the \_\_\_<sup>th</sup> percentile.

Because Sempra Energy's total shareholder return for the performance period among companies in the S&P 500 Utility Index is below the \_\_\_<sup>th</sup> percentile, none of the target number of restricted stock units vest.

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**Exhibit 10.4**  
**SEMPRA ENERGY**  
**2008 LONG TERM INCENTIVE PLAN**  
**{YEAR} NONQUALIFIED STOCK OPTION AGREEMENT**

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You have been granted an option to purchase the number of shares of Sempra Energy Common Stock set forth below.

*The terms and conditions of your option are set forth in the attached Year {YEAR} Nonqualified Stock Option Agreement and in the Sempra Energy 2008 Long Term Incentive Plan, which is enclosed. The summary below highlights selected terms and conditions but it is not complete and you should carefully read the attachments to fully understand the terms and conditions of your grant.*

**SUMMARY**

**Date of Option Grant:** \_\_\_\_\_

**Name of Optionee:** \_\_\_\_\_

**Optionee's Employee Number:** \_\_\_\_\_

**Number of Shares of Sempra Energy Common Stock Covered by Option:** \_\_\_\_\_

**Exercise Price per Share:** \_\_\_\_\_

**Vesting:**

Your option vests (becomes exercisable) in \_\_\_ equal annual cumulative installments of \_\_\_% each over a \_\_\_-year period. Once an installment becomes exercisable, it will remain exercisable until it is exercised or your option expires or terminates.

**Option Term:**

\_\_\_ years subject to earlier expiration if your employment terminates.

**Termination of Employment:**

Your option may expire or cease to vest if your employment is terminated.

**No Dividend Equivalents:**

No dividend equivalents will be paid by the Company with respect to your option or the shares covered by your option.

**Exercise of Option/Taxes:**

Upon exercise of your option you must pay (or make acceptable arrangements to pay) the exercise price for each share for which you exercise your option and any withholding taxes that may be due as a result of exercise.

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***To accept your grant you must sign this page and promptly return it to Sempra Energy. By doing so, you agree to all of the terms and conditions described in the attached Year {YEAR} Nonqualified Stock Option Agreement and in the Sempra Energy 2008 Long Term Incentive Plan.***

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Recipient: X \_\_\_\_\_  
(Signature)

Sempra Energy: \_\_\_\_\_  
/S/ Donald E. Felsing  
(Signature)

Title: Chairman & Chief Executive Officer

SEMPRA ENERGY  
2008 LONG TERM INCENTIVE PLAN  
{YEAR} NONQUALIFIED STOCK OPTION AGREEMENT

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<b>Company</b>	“Company” as used in this agreement refers to your employer, which may be Sempra Energy or a subsidiary of Sempra Energy.
<b>Vesting</b>	Your option vests (becomes exercisable) in equal annual cumulative installments over a ___-year period. Each installment is ___% of the original number of shares covered by your option and an installment vests on each of the first ___ anniversaries of the Date of Option Grant shown on the cover sheet. Once an installment of your option becomes exercisable, it will remain exercisable until it is exercised or your option expires.
<b>No Dividend Equivalents</b>	No dividend equivalents will be paid by the Company with respect to your option or the shares covered by your option.
<b>Term</b>	Your option will expire at the close of business at Sempra Energy headquarters on the day before the ___th anniversary of the Date of Option Grant shown on the cover sheet, and is subject to earlier expiration (as described below) if your employment with the Company terminates.
<b>Termination of Employment</b>	<p>If your employment with the Company terminates for any reason (other than under the circumstances set forth below), your option will expire at the close of business at Sempra Energy headquarters on the ___th day after the date your employment terminated or upon the earlier expiration of the ten-year term of your option. Your option will not continue to vest after your employment terminates and will be exercisable only as to the number of shares for which it was exercisable on the date of your employment terminated.</p> <p>If your employment terminates for any reason (including as a result of your death or total and permanent disability) after you have attained age ___ <i>and</i> at the time your employment terminated you had completed ___ years of continuous service, your option will expire at the close of business at Sempra Energy headquarters on the date ___ years (___ years if you have attained age ___) after the date your employment terminated or upon the earlier expiration of the ten-year term of your option. Your option will continue to vest during that period.</p> <p>If your employment terminates as a result of your death or total and permanent disability and at the date your employment terminated you had not attained age ___ and completed ___ years of continuous service, your option will expire at the close of business at Sempra Energy headquarters on the date ___ months after the date your employment terminated or upon the earlier expiration of the ten-year term of your option. Your option will not continue to vest following your death and will be exercisable only as to the number of shares for which it was exercisable at the date your employment terminated.</p>

“Total and permanent disability” means that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one year.

**Leaves of Absence**

For purposes of this plan, your employment does not terminate when you go on:

- Military leave,
- Sick leave that is approved in writing by the Company, or
- Other *bona fide* leave of absence that is approved in writing by the Company.

Your employment will be deemed to have terminated at the end of your approved leave unless (a) you immediately return to active work when your approved leave ends; or (b) your right to return to active work is otherwise guaranteed by law or contract; or (c) for military leaves, you return to active work within the 90-day period prescribed by law.

**Restrictions on Exercise**

You will not be permitted to exercise your option at any time at which Sempra Energy determines that the issuance of shares may violate any law, regulation or Sempra Energy policy.

**Notice of Exercise**

When you wish to exercise your option, you must notify Sempra Energy by filing the proper “Notice of Exercise” form at the address given on the form. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered. The notice will be effective when Sempra Energy receives it.

If someone else wants to exercise your option after your death, that person must prove to Sempra Energy’s satisfaction that he or she is entitled to do so.

**Payment of Option Price and Withholding Taxes**

When you submit your notice of exercise, you must pay the option price for the shares you are purchasing and any related withholding taxes. Payment may be made by one (or a combination of two or more) of the following methods:

- Personal check, cashier’s check or money order.
- Effecting a net share exercise by instructing Sempra Energy to retain a number of the shares as to which you are exercising your option that, taken at their fair market value, is sufficient to pay the option price and any related withholding taxes. In that event, the number of shares that will be issued to you will have a fair market value (at the date your option is exercised) that equals the spread or “in the money value” of the shares as to which you are exercising your option.
- To the extent permitted by law, making arrangements for a “cashless exercise” directing a securities broker approved by Sempra Energy to sell your option shares and to deliver sufficient sale proceeds to Sempra Energy in payment.

<b>Restrictions on Resale</b>	You agree not to sell any option shares at a time when applicable laws, regulations or Sempra Energy policies prohibit a sale.
<b>Transfer of Option</b>	Prior to your death, only you or the trustee of a revocable living trust established by you may exercise this option. You cannot otherwise transfer or assign this option. For example, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, your option will immediately become invalid. You may, however, dispose of your option in your will, and your option may be transferred pursuant to a “qualified domestic relations order” as defined in the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act of 1974, as amended.
<b>Retention Rights</b>	Neither your option nor this Agreement gives you the right to be retained by the Company in any capacity. The Company reserves the right to terminate your employment at any time, with or without cause. The value of the shares subject to your option will not be included as compensation or earnings for purposes of any other benefit plan offered by the Company or any of its subsidiaries.
<b>Shareholder Rights</b>	You have no rights as a shareholder of Sempra Energy until your option shares have been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your option shares are issued.
<b>Adjustments</b>	In the event of a stock split, a stock dividend or a similar change in Sempra Energy common stock the number of shares covered by this option and the exercise price per share may be adjusted pursuant to the Plan.
<b>Change in Control</b>	Subject to certain limitations set forth in the Plan, in the event of a Change in Control (as defined in the Plan) of Sempra Energy, your option will automatically become fully vested and exercisable as of the date of the Change in Control, and may, in the discretion of Sempra Energy’s compensation committee, be cashed-out.
<b>Nonqualified Stock Option</b>	This option is not intended to be an incentive stock option under section 422 of the Internal Revenue Code.
<b>Applicable Law</b>	This Agreement will be interpreted and enforced under the laws of the State of California.
<b>The Plan and Other Agreements</b>	The text of the Plan is incorporated in this Agreement by reference. In the event of any conflict between the terms of this Agreement and any written employment, severance or other employment-related agreement between you and Sempra Energy, the terms of such other agreement shall prevail.

***By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.***



**SEMPRA ENERGY  
2008 NON-EMPLOYEE DIRECTORS' STOCK PLAN  
NONQUALIFIED STOCK OPTION AGREEMENT**

Sempra Energy, a California corporation, hereby grants an option to purchase shares of its common stock to the optionee named below. The terms and conditions of the option are set forth in this cover sheet, in the attachment hereto, and in the Sempra Energy 2008 Non-Employee Directors' Stock Plan (the "Plan").

Date of Option Grant:

Name of Optionee:

Optionee's Social Security Number:

Number of Shares of Sempra Energy  
Common Stock Covered by Option:

Exercise Price per Share:

Normal Vesting Date: *{YEAR} Annual Meeting of Shareholders*

Expiration Date: *Tenth anniversary of Date of Option Grant or if  
earlier five years after termination of service*

*By signing this cover sheet, you agree to all of the terms  
and conditions described in the attachment and in the Plan.*

Optionee:	<b>X</b> _____
	(Signature)
Sempra Energy:	/S/ <i>Donald E. Felsing</i> _____
	(Signature)
Title:	Chairman & Chief Executive Officer _____

Attachment

**SEMPRA ENERGY**  
**2008 NON-EMPLOYEE DIRECTORS' STOCK PLAN**  
**NONQUALIFIED STOCK OPTION AGREEMENT**

<b>Vesting</b>	Your right to exercise this option fully vests and becomes exercisable on the date of the Sempra Energy {YEAR} Annual Meeting of Shareholders. In the event that you cease to be a member of the Board of Directors of Sempra Energy (the "Board") as a result of death, disability, Retirement (as defined in the Plan) or your involuntary termination of service on the Board other than for cause, your option shall thereupon become fully vested and exercisable.
<b>Term</b>	Your option will expire at the close of business at Sempra Energy headquarters on the day before the 10th anniversary of the Date of Option Grant shown on the cover sheet, and is subject to earlier expiration (as described below) if your service on the Board terminates.
<b>Exercise of Option Following Termination of Service</b>	If you cease to be a member of the Board for any reason, then (A) you shall have the right, subject to the terms and conditions of this Agreement and the Plan, to exercise your option, to the extent that it has vested as of the date of such termination of service, at any time within five years after the date of such termination or the earlier expiration of the ten-year term of the option, and (B) the unvested portion of your option shall be forfeited as of the date of such termination.
<b>Restrictions on Exercise</b>	Sempra Energy will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.
<b>Notice of Exercise</b>	<p>When you wish to exercise this option, you must notify Sempra Energy by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many shares you wish to purchase.</p> <p>Your notice must also specify how your shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship). The notice will be effective when it is received.</p> <p>If someone else wants to exercise this option after your death, that person must establish that he or she is entitled to do so.</p>
<b>Form of Payment</b>	<p>When you submit your notice of exercise, you must include payment of the option price for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms:</p> <ul style="list-style-type: none"><li>* Your personal check, a cashier's check or a money order.</li><li>* Certificates for shares of Sempra Energy common stock that you have owned for at least six months, along with any forms needed to effect a transfer of the shares to Sempra Energy. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option price.</li><li>* To the extent permitted by law, arrangements can be made to permit a "cashless exercise" whereby you direct a securities broker approved by Sempra Energy to sell your option shares and to deliver sufficient sale proceeds to Sempra Energy in payment of the option price and any required withholding. The directions must be given by signing a special "Notice of Exercise" form provided by Sempra Energy.</li></ul>
<b>Withholding Taxes</b>	You will not be permitted to exercise this option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the option exercise. Payment of withholding taxes may be made by any combination of the methods described under "Form of Payment."
<b>Restrictions on Resale</b>	By signing this Agreement, you agree not to sell any option shares at a time when applicable laws or Sempra Energy policies prohibit a sale.

**Transfer of Option**

Prior to your death, only you or the trustee of a revocable living trust established by you or your spouse may exercise this option. You cannot otherwise transfer or assign this option. For example, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, dispose of this option in your will, and this option may be transferred pursuant to a “qualified domestic relations order” as defined in the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act of 1974, as amended.

**Retention Rights**

Neither your option nor this Agreement creates any obligation on the part of the Board to nominate you for reelection to the Board, or confers upon you the right to remain a member of the Board for any period of time, or at any particular rate of compensation.

**Shareholder Rights**

You, or your estate or heirs, have no rights as a shareholder of Sempra Energy until a certificate for your option shares has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as described in the Plan.

**Adjustments**

In the event of a stock split, a stock dividend or a similar change in Sempra Energy common stock, the number of shares covered by this option and the exercise price per share may be adjusted pursuant to the Plan.

**Change in Control**

Subject to certain limitations set forth in the Plan, in the event of a Change in Control (as defined in the Plan), your option will automatically become fully vested and exercisable as of the date of the Change in Control, and may, in the discretion of Sempra Energy’s compensation committee, be cashed-out.

**No Dividend  
Equivalents**

No dividend equivalents will be paid by Sempra Energy with respect to your option or the shares covered by your option.

**Nonqualified Stock  
Option**

This option is not intended to be an incentive stock option under section 422 of the Internal Revenue Code.

**Applicable Law**

This Agreement will be interpreted and enforced under the laws of the State of California.

**The Plan and Other  
Agreements**

The text of the Plan is incorporated in this Agreement by reference.

This Agreement and the Plan constitute the entire understanding between you and Sempra Energy regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

**SEMPRA ENERGY  
AMENDED AND RESTATED  
EXECUTIVE LIFE INSURANCE PLAN**

Sempra Energy, a California corporation (“Sempra”), hereby amends and restates the Sempra Energy Executive Life Insurance Plan (the “Plan”), which was originally effective June 1, 1998. The Plan was amended and restated effective as of July 1, 2003.

Sempra hereby amends and restates the Plan effective as of \_\_\_\_\_, except as otherwise provided herein. This amendment and restatement of the Plan is intended to comply with the requirements of Sections 409A(a)(2), (3) and (4) of the Code (as defined below) and the Treasury Regulations thereunder. Also, the name of the Plan is hereby amended to be “The Sempra Energy Executive Life Insurance Plan.”

## PURPOSE OF PLAN

The purpose of this Plan is to assist certain of Sempra’s senior executives to obtain additional life insurance coverage. In connection with this, the Plan provides that the Company will make certain life insurance premium payments on the policies obtained under the terms and conditions of this Plan. In addition, the Plan provides for a tax gross-up to offset the income taxes associated with those premium payments.

## ARTICLE I DEFINITIONS

Whenever capitalized in this Plan document, the following terms shall have the meanings set forth below unless otherwise expressly provided:

- 1.1 **“Board”** shall mean the Board of Directors of the Company.
- 1.2 **“Code”** means the Internal Revenue Code of 1986, as amended.
- 1.3 **“Committee”** shall mean the Compensation Committee of the Board, or such other committee as the Compensation Committee shall appoint from time to time to administer the Plan.
- 1.4 **“Company”** shall mean Sempra Energy, a California corporation, and any successor thereto, including any corporation that is a successor to all or substantially all of the Company’s assets or business. “Company” shall also include any corporation or other entity a majority of whose outstanding voting stock or voting power is owned, directly or indirectly, by Sempra Energy, Inc.
- 1.5 **“Participant”** shall mean any senior executive of the Company who is selected to participate in the Plan and who has satisfied the conditions for Plan participation as set forth in Section 2.1.
- 1.6 **“Plan”** shall mean this Sempra Energy Executive Life Insurance Plan, as it may be amended from time to time.
- 1.7 **“Plan Year”** shall mean the calendar year.
- 1.8 **“Policy”** shall mean the life insurance policy (or life insurance policies if more than one is required because of death benefit amounts or otherwise) purchased on a Participant’s life that is subject to the terms and conditions of this Plan.
- 1.9 **“Separation from Service”**, with respect to a Participant (or another Service Provider) means the Participant’s (or such Service Provider’s) “separation from service,” as defined in Treasury Regulation Section 1.409A-1(h).
- 1.10 **“Service Provider”** means a Participant or any other “service provider,” as defined in Treasury Regulation Section 1.409A-1(f).
- 1.11 **“Service Recipient,”** with respect to a Participant, means the Company and all persons considered part of the “service recipient,” as defined in Treasury Regulation Section 1.409A-1(g), as determined from time to time. As provided in Treasury Regulation Section 1.409A-1(g), the “Service Recipient” shall mean the person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Section 414(b) or 414(c) of the Code.
- 1.12 **“Specified Employee”** means a Service Provider who, as of the date of the Service Provider’s Separation from Service, is a **“Key Employee”** of the Service Recipient any stock of which is publicly traded on an established securities market or otherwise. For purposes of this definition, a Service Provider is a **“Key Employee”** if the Service Provider meets the requirements of Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the Treasury Regulations thereunder and disregarding Section 416(i)(5) of the Code) at any time during the Testing Year. If a Service Provider is a **“Key Employee”** (as defined above) as of a Specified Employee Identification Date, the Service Provider shall be treated as **“Key Employee”** for the entire twelve (12) month period beginning on the Specified Employee Effective Date. For purposes of this definition, a Service Provider’s compensation for a Testing Year shall mean such Service Provider’s compensation, as determined under Treasury Regulation Section 1.415(c)-2(a) (and applied as if the Service Recipient were not using any safe harbor provided in Treasury Regulation Section 1.415(c)-2(d), were not using any of the elective special timing rules provided in Treasury Regulation Section 1.415(c)-2(e), and were not using any of

the elective special rules provided in Treasury Regulation Section 1.415(c)-2(g)). The “Specified Employees” shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation Section 1.409A-1(i).

1.13 “**Specified Employee Effective Date**” means the first day of the fourth month following the Specified Employee Identification Date. The Specified Employee Effective Date may be changed by the Company, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(4).

1.14 “**Specified Employee Identification Date**”, for purposes of Treasury Regulation Section 1.409A-1(i)(3), means December 31. The “Specified Employee Identification Date” shall apply to all “nonqualified deferred compensation plans” (as defined in Treasury Regulation Section 1.409A-1(a)) of the Service Recipient and all affected Service Providers. The “Specified Employee Identification Date” may be changed by Sempra Energy, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(3).

1.15 “**Tax Gross-Up**” shall mean the tax gross-up amount set forth in Section 3.4 below.

1.16 “**Testing Year**” means the twelve (12) month period ending on the Specified Employee Identification Date, as determined from time to time.

1.17 “**Years of Service**” shall mean the total number of full years of employment in which a Participant has been employed by the Company. For purposes of this definition, a year of employment shall be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of employment, commences on the Participant’s date of hiring and that, for any subsequent year, commences on an anniversary of that hiring date. Any partial year of employment shall not be counted.

## ARTICLE II ELIGIBILITY

2.1 ***Eligibility for Participation.*** A senior executive of the Company shall participate in this Plan as a Participant if either he or she is participating in the Plan as of the effective date of this amendment and restatement or meets all of the following requirements:

- (1) Has been designated in writing by the Committee, in its sole and absolute discretion, as a Participant;
- (2) Completes and returns to the Committee, no later than thirty (30) days after he or she receives written notice of such designation, such administrative and other forms as the Committee may require for participation;
- (3) Completes such insurance forms, exams, and questions as the Committee may designate from time to time;
- (4) Timely completes any other participation conditions as may be prescribed by the Committee from time to time; and

If a senior executive fails to meet all of the above-listed requirements within a reasonable time, as determined by the Committee in its sole discretion, the Committee shall provide that executive with written notice within thirty (30) days of such failure, and that person shall not become a Participant under this Plan.

2.2 ***Acquisition of Insurance.*** As a condition of participation in this Plan, the Participant shall be required to cooperate in applying for and obtaining a Policy on his or her life. The selection of the Policy shall be at the sole discretion of the Company. The Policy shall be issued in the name of the Participant as the sole and exclusive owner of the Policy, subject to the rights and interests granted to the Company, as provided in this Plan. At the sole discretion of the Committee, the Participant may designate a person or entity other than the Participant as the owner of the Policy, provided that such owner agrees to be bound to the terms and conditions of this Plan.

2.3 ***Additional Life Insurance Coverage.*** During the term of this Plan, the death benefit coverage under the Policy may be increased from time to time, to reflect increases in the Participant’s compensation pursuant to the provisions of Sections 3.1 and 3.2. As a condition of receiving the benefits of any such increase, the Participant shall be required to cooperate in applying for and obtaining such additional coverage. If the Participant does not so cooperate, and such coverage cannot be obtained because of the Participant’s failure to cooperate, the Company shall have no obligation under this Plan to provide such additional coverage. Further, if the Participant is not insurable at the time such additional coverage is sought on a guaranteed issue basis, or if simplified or full medical underwriting is required, on a rated basis that is no lower than standard, smoker, then the Company shall have no obligation under this Plan to provide such additional coverage. The Committee, in its sole discretion, may reduce the minimum standard referred to in the previous sentence, in its sole discretion, based on the cost of insurance or otherwise.

## ARTICLE III BONUS AMOUNTS

3.1 ***Life Insurance Coverage Prior to Separation from Service.*** Subject to Article II above, for each Plan Year of the Participant’s participation in the Plan and prior to the Participant’s Separation from Service, the Company shall pay to the life insurance carrier the premiums on the Policy in accordance with this Section 3.1, as determined by the Company in its sole discretion, which Policy shall provide a death benefit equal to the sum of the following amounts, as those amounts are determined as of the last day of each Plan Year, as determined by the Committee in its sole discretion: (i) two (2) times the Participant’s annual base salary, plus (ii) two (2) times the Participant’s average annual bonus under the 2003 Executive Incentive Plan, or any successor

thereto (the "Bonus Plan"), including any amount deferred, in the three (3) highest years in the ten (10) previous years, or during the Participant's actual years of employment with the Company, if less. In determining the amounts described in the previous sentence for any Plan Year, the Committee shall substitute the Participant's target bonus under the Bonus Plan for a Participant who is in his or her first Plan Year of participation and has not received any bonus under the Bonus Plan. The premium for any Plan Year shall be paid by the Company not later than March 15 of the next following Plan Year; provided, however, that such premium shall not be paid if the Participant has a Separation from Service prior to the payment of such premium. If a Participant's compensation increases after the Committee has determined the Participant's death benefit as of the last day of the Plan Year, the Participant's death benefit under the Policy shall not be adjusted until the last day of the next following Plan Year and then it will be based on the Participant's compensation at that time. These premium payments shall be treated as a bonus payments to the Participant.

3.2 **Life Insurance Coverage after Separation from Service with Age and Service.** *If at the time of the Participant's Separation from Service (other than by reason of the Participant's death), the Participant has attained age 62 and has completed at least five Years of Service, then the Participant shall be entitled to the benefit, if any, specified in this Section 3.2. Upon such Separation from Service, the Committee shall have the life insurance carrier who issued the Policy prepare a life insurance projection for the Policy, determined as of the January 1 of the Plan Year next following such Separation from Service based on the following assumptions: (i) the then current policy charges, (ii) a crediting rate of 6.5% net of investment management fees (but before mortality and expense charges, (iii) death benefit coverage until the Participant's 100<sup>th</sup> birthday equal to (x) one (1) times the Participant's annual base salary (determined as of the date of the Participant's Separation from Service), plus (y) one (1) times the Participant's average annual bonus under the Bonus Plan, including any amount deferred, in the three (3) highest years in the ten (10) previous years, or during the Participant's actual years of employment with the Company, if less (determined as of the date of the Participant's Separation from Service), and (iv) no additional premiums. If the illustration shows that the Policy will sustain itself until at least the Participant's 100<sup>th</sup> birthday without lapsing, based on these assumptions, then the Company shall have no further obligations under the Plan. If the illustration provides that the Policy will not so sustain itself until that time without lapsing, the Company shall have the life insurance carrier determine the minimum premium, determined as of the January 1 of the Plan Year next following such Separation from Service required to be paid into the Policy to so sustain the Policy. Except as provided in Section 5.1(2), the Company will then pay such premium to the life insurance carrier during the Plan Year next following the Plan Year in which such Participant's Separation from Service occurs and the Company shall have no further obligation to the Participant under this Plan. The Company shall not make a premium payment under this Section 3.2 in the event of the Participant's Separation from Service by reason of death.*

3.3 **Life Insurance Coverage after Separation from Service without Age and Service.** If at the time of the Participant's Separation from Service, the Participant has not attained age 62, or has not completed at least five Years of Service, the Company's obligations under this Plan to pay any future premiums on the Policy or any Tax Gross-Up shall cease immediately upon the Participant's Separation from Service and the Company shall have no further obligation to the Participant under the Plan.

3.4 **Tax Gross-Up.** To offset the federal and state income tax liability incurred by the Participant as a result of premiums paid on behalf of the Participant, as provided for in Sections 3.1 and 3.2 above, the Company shall pay a tax gross-up (the "Tax Gross-Up") directly to the Participant concurrent with each premium payment under Section 3.1 or 3.2. The Committee shall determine the amount of each Participant's Tax Gross-Up each time a premium is paid. The amount of the Tax Gross-Up shall be calculated in the following manner. The Committee shall determine the Participant's actual federal and state (for the state in which the Participant resides at the time of the premium payment) income tax rates at the time of premium payment. Using those rates, the amount of the Tax Gross-Up will be determined using the following formula. Assuming that the applicable federal income tax rate is X and the applicable state income tax rate is Y, the Tax Gross-Up equals the applicable premium divided by Z, minus the premium amount, where Z equals (1-X) times (1-Y). For example, if the applicable premium is \$1,000, X is 0.4 (i.e. the actual marginal federal tax rate is 40%), and Y is 0.1 (i.e. the actual marginal state tax rate is 10%), the Tax Gross-Up would be \$851.85. In no event shall the Company pay any Tax Gross-Up later than the taxable year of the Participant next following the Participant's taxable year in which the Participant remits the related taxes. All Tax Gross-Up payments shall be paid in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(v). Notwithstanding anything to the contrary in this Section 3.4, in no event shall any Tax Gross-Up payment exceed the amount of the "tax gross-up payment" permitted under Treasury Regulation Section 1.409A-3(i)(1)(v).

3.5 **Tax Withholding.** The Company shall withhold from the Participant's compensation all federal, state and local income, employment and other taxes required to be withheld by the Company in connection with the premium or Tax Gross-Up payments, in amounts and in a manner to be determined in the sole discretion of the Company.

3.6 **Right to Invest Cash Surrender Value.** Until the earlier of the Participant's Separation from Service or the termination of the Plan, the Company shall have the sole and absolute right to invest and reallocate the Participant's Policy's cash surrender value as the Company determines in its sole discretion. The Participant shall cooperate with the Company with respect to any actions required by the life insurance carrier issuing the Policy to grant to the Company such power. The Company shall not have any liability associated with such investment authority and discretion, provided that the Company makes all premium and Tax Gross-Up payments required under this Plan.

## ARTICLE IV ADMINISTRATION

4.1 **Administration.** This Plan shall be administered by the Committee. The Committee shall be authorized to construe and interpret all of the provisions of this Plan, to adopt procedures and practices concerning the administration of this Plan, and to make any determinations necessary hereunder, which shall, subject to Section 4.8 below, be binding and conclusive on all parties. The Committee may appoint one or more individuals and delegate such of its power and duties as it deems desirable to any such

individual, in which case every reference herein made to the Committee shall be deemed to mean or include the individuals as to matters within their jurisdiction.

4.2 **Decisions and Actions of the Committee.** The Committee may act at a meeting or in writing without a meeting. All decisions and actions of the Committee shall be made by vote of the majority, including actions in writing taken without a meeting.

4.3 **Rules and Records of the Committee.** The Committee shall make such rules and regulations in connection with its administration of the Plan as are consistent with the terms and provisions hereof. The Committee shall keep a records of each Participant's name, address, social security number, benefit commencement date, and the amount of benefit.

4.4 **Employment of Agents.** The Committee may employ agents, including without limitation, accountants, actuaries, consultants, or attorneys, to exercise and perform the powers and duties of the Committee as the Committee delegates to them, and to render such services to the Committee as the Committee may determine, and the Committee may enter into agreements setting forth the terms and conditions of such service.

4.5 **Agents for Service of Legal Process.** The Chairman of the Committee shall serve as agent for service of legal process.

4.6 **Plan Expenses.** The Company shall pay all expenses reasonably incurred in the administration of this Plan. The members of the Committee shall serve without compensation for their services as such, but all expenses of the Committee shall be paid by the Company. No employee of the Company shall receive compensation from this Plan regardless of the nature of his services to this Plan.

4.7 **Indemnification.** To the extent permitted by law, the Committee and all agents and representatives of the Committee shall be indemnified by the Company and saved harmless against any claims, and the expenses of defending against such claims, resulting from any action or conduct relating to the administration of this Plan except claims arising from gross negligence, willful neglect, or willful misconduct.

4.8 **Claims Procedure.**

(1) **Claim.** A Participant, beneficiary or other person who believes that he is being denied a benefit to which he is entitled under this Plan (hereinafter referred to as "Claimant") may file a written request for such benefit with the Committee, setting forth his claim. The request must be addressed to the Committee at Sempra Energy at its then principal place of business. The claims procedure of this Section shall be applied in accordance with Section 503 of ERISA and Department of Labor Regulation Section 2560.503-1. A Participant, beneficiary or other person may assert a claim, or request review of the denial of a claim, through such Participant's, beneficiary's or person's authorized representative, provided that such Participant, beneficiary or person has submitted a written notice evidencing the authority of such representative to the Committee. < /P>

A Claimant or his duly authorized representative shall submit his claim under the Plan in writing to the Committee. The Claimant may include documents, records or other information relating to the claim for review by the Committee in connection with such claim.

(2) **Claim Decision.** The Committee shall review the Claimant's claim (including any documents, records or other information submitted with such claim) and determine whether such claim shall be approved or denied in accordance with the Plan.

Upon receipt of a claim, the Committee shall advise the Claimant that a claim decision shall be forthcoming within ninety (90) days and shall, in fact, deliver such claim decision within such period. The Committee may, however, extend the claim decision period for an additional ninety (90) days for special circumstances. If the Committee extends the claim decision period, the Committee shall provide the Claimant with written notice of such extension prior to the end of the initial ninety (90) day period. The extension notice shall indicate the special circumstances requiring the extension of time and the date by which the Committee expects to render a claim decision.

If the claim is denied in whole or in part, the Committee shall inform the Claimant in writing, using language calculated to be understood by the Claimant, setting forth: (i) the specified reason or reasons for such denial; (ii) references to the specific provisions of this Plan on which such denial is based; (iii) a description of any additional material or information necessary for the Claimant to perfect his claim and an explanation of why such material or such information is necessary; and (iv) a description of the Plan's procedures for review and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following a denial of the review of the denial of the claim.

The Claimant may request a review of any denial of the claim in writing to the Committee within sixty (60) days after receipt of the Committee's notice of denial of claim. The Claimant's failure to appeal the denial of the claim by the Committee in writing within the sixty (60) day period shall render the Committee's determination final, binding, and conclusive.

(3) **Request for Review.** With sixty (60) days after the receipt by the Claimant of the denial of the claim described above, the Claimant may request in writing a review the determination of the Compensation Committee. Such review shall be completed by the Compensation Committee. Such request must be addressed to the Committee, at Sempra Energy's then principal place of business.

The Claimant shall be afforded the opportunity to submit written comments, documents, records, and other information relating to the claim, and the Claimant shall be provided, upon request and free of charge, reasonable access to all documents, records, and other information relevant to the Claimant's claim. A document, record or other information shall be considered



“relevant” to the claim, as provided in Department of Labor Regulation Section 2560.503-1(m)(8). The review by the Committee shall take into account all comments, documents, records, and other information submitted by the Claimant, without regard to whether such information was submitted or considered in the Committee’s initial determination with respect to the claim.

The Committee shall advise the Claimant in writing of the Committee’s determination of the review within sixty (60) days of the Claimant’s written request for review, unless special circumstances (such as a hearing) would make the rendering of a determination within the sixty (60) day period infeasible, but in no event shall the Committee render a determination regarding the denial of a claim later than one hundred twenty (120) days after its receipt of a request for review. If an extension of time for review is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the date the extension period commences. The extension notice shall indicate the special circumstances requiring the extension of time and the date by which the Committee expects to render a review decision.

(4) **Review of Decision.** The Committee shall inform the Claimant in writing, in a manner calculated to be understood by the Claimant, the decision on the review of the denial of the claim, setting forth: (i) the specific reasons for the decision, (ii) if the claim is denied, reference to the specific Plan provisions on which the denial of the claim is based; (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the Claimant’s claim (and a document, record or other information shall be considered “relevant” to the benefits claim, as provided in Department of Labor Regulation Section 2560.503-1(m)(8)); and (iv) a statement describing Claimant’s right to bring an action under Section 502(a) of ERISA.

## ARTICLE V SECTION 409A OF THE CODE

### 5.1 **Compliance with Section 409A of the Code.**

(1) **Plan Interpretation and Administration.** This Plan shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (subject to the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79, Internal Revenue Service Notice 2007-78, Internal Revenue Service Notice 2007-86 and other applicable authority issued by the Internal Revenue Service). As provided in Internal Revenue Notice 2007-86, notwithstanding any other provision of this Plan, with respect to an election or amendment to change a time and form of payment under the Plan made on or after January 1, 2008 and on or before December 31, 2008, the election or amendment shall apply only to amounts that would not otherwise be payable in 2008 and shall not cause an amount to be paid in 2008 that would not otherwise be payable in 2008.

(2) **Premium Payment for Specified Employees.** In the case of a Participant who is a Specified Employee on the date of such Participant’s Separation from Service, the premium payment under Section 3.2 with respect to such Participant (if any) shall not be made before the date which is six months after the date of such Participant’s Separation from Service in accordance with Section 409A(a)(2)(B)(i) of the Code and the Treasury Regulations thereunder. Any premium payment under Section 3.2 with respect to such Participant that otherwise would have been made during the first six months following the date of such Participant’s Separation from Service shall be accumulated (without interest) and paid on the first day of the seventh month following the date of such Participant’s Separation from Service; provided, however, that such premium shall not be paid in the event of such Participant’s death prior to the first day of the seventh month following the date of such Participant’s Separation from Service. The Tax Gross-Up payment with respect to any such premium payment under Section 3.2 shall be paid concurrent with such premium payment in accordance with Section 3.4.

(3) **Prohibition of Acceleration of Premiums.** The time of payment of any payment of the premium with respect to a Participant under Section 3.2 (and any Tax Gross-Up with respect to any such premium) shall not be subject to acceleration, except as provided under Treasury Regulations promulgated in accordance with Section 409A(a)(3) of the Code.

5.2 **Short-Term Deferral Exemption.** The premium payments under Section 3.1 with respect to a Participant (and any Tax Gross-Up with respect to any such premium) are intended to be short-term deferrals under Treasury Regulation Section 1.409A-1(b)(4) and exempt from Section 409A of the Code. The premium payments under Section 3.1 with respect to a Participant (and any Tax Gross-Up with respect to any such premium) shall be made on or before the last day of the applicable 2 ½ month period, as defined in Treasury Regulation Section 1.409A-1(b)(4).

## ARTICLE VI MISCELLANEOUS

6.1 **Amendment and Termination.** This Plan may be amended or terminated, in whole or in part, at any time by written action of the Board, in its sole discretion; provided that any amendment or termination that materially and adversely affects any payments under Article III at the time of such amendment or termination must be consented to in writing by any Participant so affected before it shall have any effect as to that Participant. Notwithstanding the foregoing, the Board may terminate the Plan without the Participants’ consent, provided that (i) such Plan termination is treated for purposes of this Plan as a Separation from Service of all Participants (assuming that each had obtained age 62 with five Years of Service, regardless of whether such requirements were actually met), (ii) the Company pays the premium and Tax Gross-Up, if any, required by Sections 3.2 and 3.4, and (iii) such termination of the Plan and the payment of such premiums and Tax Gross-Up comply with Section 409A of the Code and the Treasury Regulations thereunder.

**Binding Effect.** This Plan shall bind the Participant and the Company and their beneficiaries, survivors, executors, administrators, and transferees.

6.3 **No Guarantee of Employment.** This Plan is not an employment policy or contract. It does not give the Participant the right to remain an employee of the Company, nor does it interfere with the Company's right to discharge the Participant, with or without cause. It also does not require the Participant to remain an employee nor interfere with the Participant's right to terminate employment at any time.

6.4 **Applicable Law.** This Plan and all rights hereunder shall be governed by the internal laws of the State of California without regard to its conflict of laws provisions, except to the extent preempted by the laws of the United States of America.

6.5 **Non-Transferability.**

(1) Prior to the Participant's termination of employment, benefits under this Plan cannot be sold, transferred, or assigned and the Participant cannot withdraw the cash surrender value of the policy.

(2) The previous sentence shall not in any way limit or prohibit the right of a Participant to transfer ownership of the life insurance policy described in this Plan to a trust for which the Participant is the grantor.

6.6 **Named Fiduciary.** The Company shall be the named fiduciary and plan administrator under this Plan. The named fiduciary may delegate to others certain aspects of the management and operation responsibilities of the plan including the employment of advisors and the delegation of ministerial duties to qualified individuals.

IN WITNESS WHEREOF, the Company has executed this amendment and restatement of the Plan as of \_\_\_\_\_, 2008.

**SEMPRA ENERGY**

By: \_\_\_\_\_

Its: \_\_\_\_\_

**SEMPRA ENERGY  
AMENDED AND RESTATED  
RETIREMENT PLAN FOR DIRECTORS**

Sempra Energy, a California corporation (“Sempra Energy”), maintains the Sempra Energy Retirement Plan for Directors (the “Plan”).

Sempra Energy hereby amends and restates the Plan, effective as of \_\_\_\_\_, except as otherwise provided herein. This amendment and restatement of the Plan is intended to comply with the requirements of Sections 409A(a)(2), (3) and (4) of the Code (as defined below) and the Treasury Regulations thereunder. Also, the name of the Plan is hereby amended to be “Sempra Energy Amended and Restated Retirement Plan for Directors.”

Paragraph 8 of the Plan is hereby deleted, effective as of December 31, 2004. Paragraph 8 provided that a Director’s benefits under the Plan would be offset by such Director’s benefits under the Sempra Energy Executive Security Bonus Plan (the “EBP”). The EBP was terminated effective as of December 31, 2004 and, consequently, the offset ceased to apply.

## **1. PURPOSE**

The purpose of this unfunded Plan is to retain outstanding directors for Sempra Energy. A member of the Sempra Energy Board of Directors is referred to herein as a “Director.”

## **2. ELIGIBILITY**

Members of the Sempra Energy Board of Directors who participated in a Director Retirement Plan maintained by Pacific Enterprises, Enova Corporation or San Diego Gas & Electric (a “Prior Plan”) shall be eligible to participate in this Plan, which is a successor to the Prior Plan.

The names of the Directors participating in the Plan, each Director’s Benefit Service, and each Director’s Distribution Form under the Plan as in effect as of the date hereof, are set forth on Exhibit A hereto. No other Director shall participate in this Plan.

## **3. LUMP SUM DISTRIBUTION**

A participating Director whose Distribution Form is a lump sum shall receive a lump sum benefit which is the actuarial equivalent of the benefit in paragraph 4 (exclusive of any benefit derived from retainer and/or fee increases after such Director’s Separation from Service). Subject to Exhibit B hereto, the benefit payment shall be made to such Director within thirty (30) days following such Director’s Separation from Service. Actuarial equivalency shall be determined using the “Gatt rate” for the calendar month preceding the calendar month in which the Director’s Separation from Service occurs.

## **4. ANNUAL BENEFIT; ANNUAL BENEFIT DISTRIBUTION**

A participating Director whose Distribution Form is an annual benefit shall receive an annual retirement benefit equal to the sum of (a) the then-current year’s annual base retainer for a Director (exclusive of any amount paid for committee service); and (b) the then-current fee for a Director for attending a regularly scheduled meeting of the full Sempra Energy Board of Directors in California, multiplied by 10, subject to upward adjustments if the retainer and/or meeting fee increases subsequent to the Director’s Separation from Service. In the event that an increase occurs, the Director’s retirement benefit will be adjusted effective with the next scheduled payment.

Subject to Exhibit B, benefit payments to a participating Director whose Distribution Form is an annual benefit will start on the first day of the calendar quarter on or next following the date of such Director’s Separation from Service, provided such Director is at least age 65 on the date of such Separation from Service. Subject to Exhibit B, in the case of an eligible Director whose Distribution Form is an annual benefit and whose Separation from Service occurs prior to age 65, such Director will start receiving benefit payments on the first day of the calendar quarter on or next following the date such Director attains age 65. Benefits will be paid on the first day of each quarter thereafter, and will be paid for a period equal to the length of the Director’s Benefit Service. Each quarterly payment will be one-fourth the annual retirement benefit. & nbsp;There are no death benefits payable under this Plan except as provided in paragraph 5.

## **5. CHANGE IN DISTRIBUTION FORM**

A participating Director may elect on a one-time basis to change such Director’s Distribution Form in accordance with this paragraph 5. The participating Director shall make such election on such form as is prescribed by the Company’s Compensation Committee. Such election shall be irrevocable when made, and shall not take effect until at least twelve (12) months after the date on which the election is made. Such election shall provide that the Director’s benefit shall be deferred for a period of five years from the date such benefit would otherwise have been paid (or in the case of benefits payable in installment payments treated as a single payment, five years from the date the first benefit was scheduled to be paid). Such election shall be made in accordance with Treasury Regulation Section 1.409A-2(b).

## **6. SURVIVOR BENEFITS**

If a participating Director dies after the start of benefit payments, his/her beneficiary shall receive the remaining payments, if any, to which the participating Director would have been entitled but for his/her death. If a participating Director dies prior to

the start of benefit payments, his/her beneficiary will receive a benefit calculated pursuant to paragraph 3, within thirty (30) days following the participating Director's death. A participating Director shall designate a beneficiary on such form as is prescribed by the Company's Compensation Committee. In the case of a participating Director who is married, such Director may designate a non-spouse beneficiary only with the written consent of such Director's spouse. If a participating Director fails to designate a beneficiary, or such beneficiary predeceases such Director, such Director's beneficiary shall be such Director's surviving spouse or, if there is no surviving spouse, such Director's estate.

## **7. ADMINISTRATION**

The Company's Compensation Committee shall have full and final authority to interpret this plan and to make determinations that it believes advisable for the administration of the Plan. All decisions and determinations by the Compensation Committee shall be final and binding upon all parties.

## **8. GRANDFATHER BENEFIT**

In the event that the retirement benefit calculated under the terms of a Prior Plan is greater than the benefit amount under paragraph 3 herein, the eligible Director shall receive a benefit equal to such Prior Plan retirement benefit subject to the maximum provided in 4 above.

## EXHIBIT A

### Directors Participating in the Plan; Benefit Service and Distribution Form

Effective as of March 17, 2008, the Directors participating in the Plan, and the Benefit Service and Distribution Form of each such Director, are as set forth below:

<u>Director</u>	<u>Benefit Service</u>	<u>Distribution Form</u>
Richard A. Collato	10 Years	Annual Benefit
Wilford D. Godbold, Jr.	13 Years	Lump Sum
William D. Jones	10 Years	Lump Sum (Default)
William G. Ouchi	10 Years	Annual Benefit

## EXHIBIT B

### 1. Definitions under Section 409A of the Internal Revenue Code

The following definitions under Section 409A of the Internal Revenue Code shall apply for purposes of the Plan.

“Code” means the Internal Revenue Code of 1986, as amended.

“Separation from Service”, with respect to a participating Director (or another Service Provider), means the Director’s (or such Service Provider’s) (a) termination of membership on the Sempra Energy Board of Directors or (b) other termination or reduction in services, provided that such termination or reduction in clause (a) or (b) constitutes a “separation from service,” as defined in Treasury Regulation Section 1.409A-1(h).

“Service Provider” means a participating Director or any other “service provider,” as defined in Treasury Regulation Section 1.409A-1(f).

“Specified Employee” means a Service Provider who, as of the date of the Service Provider’s “separation from service,” as defined in Treasury Regulation Section 1.409A-1(h), is a “Key Employee” of the Service Recipient any stock of which is publicly traded on an established securities market or otherwise. For purposes of this definition, a Service Provider is a “Key Employee” if the Service Provider meets the requirements of Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the Treasury Regulations thereunder and disregarding Section 416(i)(5) of the Code) at any time during the Testing Year. If a Service Provider is a “Key Employee” (as defined above) as of a Specified Employee Identification Date, the Service Provider shall be treated as “Key Employee” for the entire twelve ( 12) month period beginning on the Specified Employee Effective Date. For purposes of this definition, a Service Provider’s compensation for a Testing Year shall mean such Service Provider’s compensation, as determined under Treasury Regulation Section 1.415(c)-2(a) (and applied as if the Service Recipient were not using any safe harbor provided in Treasury Regulation Section 1.415(c)-2(d), were not using any of the elective special timing rules provided in Treasury Regulation Section 1.415(c)-2(e), and were not using any of the elective special rules provided in Treasury Regulation Section 1.415(c)-2(g)), from the Service Recipient for such Testing Year. The “Specified Employees” shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation Section 1.409A-1(i).

“Specified Employee Effective Date” means the first day of the fourth month following the Specified Employee Identification Date. The Specified Employee Effective Date may be changed by the Company, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(4).

“Specified Employee Identification Date”, for purposes of Treasury Regulation Section 1.409A-1(i)(3), shall mean December 31. The “Specified Employee Identification Date” shall apply to all “nonqualified deferred compensation plans” (as defined in Treasury Regulation Section 1.409A-1(a)) of the Service Recipient and all affected Service Providers. The “Specified Employee Identification Date” may be changed by the Company, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(3).

“Testing Year” shall mean the twelve (12) month period ending on the Specified Employee Identification Date, as determined from time to time.

### 2. Compliance with and Exemption from Section 409A of the Code.

The benefits payable under this Plan are intended to comply with the requirements of Section 409A of the Code. This Plan shall be interpreted in accordance with the applicable requirements of, Section 409A of the Code and the Treasury Regulations thereunder. This Plan shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (subject to the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79, Internal Revenue Service Notice 2007-78, Internal Revenue Service Notice 2007-86 and other applicable authority issued by the Internal Revenue Service). As provided in Internal Revenue Notice 2007-86, notwithstanding any other provision of this Plan, with respect to an election or amendment to change a time or form of payment under this Plan made on or after January 1, 2008 and on or before December 31, 2008, the election or amendment shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. If Sempra Energy determines that any benefits that are payable under this Plan and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code do not comply with Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, Sempra Energy shall amend this Plan, or take such other actions as Sempra Energy deems reasonably necessary or appropriate, to comply with the requirements of Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service. In the case of any benefits that are payable under this Plan and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code, if any provision of the Plan would cause such benefits to fail to so comply, such provision shall not be effective and shall be null and void with respect to such compensation, benefits or other payments, and such provision shall otherwise remain in full force and effect.

3. Delayed Distribution under Section 409A of the Code.

If a participating Director is a Specified Employee on the date of such Director's Separation from Service, any benefits under this Plan subject to Section 409A of the Code shall be delayed in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, and such benefits shall be paid to such Director during the thirty (30) day period commencing on the earlier of (a) the expiration of the six-month period measured from the date of such Director's Separation from Service or (b) the date of such Director's death. Upon the expiration of the applicable six-month period under Section 409A(a)(2)(B)(i) of the Code, all payments deferred pursuant to this Section 3 shall be paid in a lump sum payment to the Director, plus interest thereon from the date of the Director's Separation from Service through the payment date at an annual rate equal to Moody's Rate. The "Moody's Rate" shall mean the average of the daily Moody's Corporate Bond Yield Average – Monthly Average Corporates as published by Moody's Investors Service, Inc. (or any successor) for the month next preceding the date of the Director's Separation from Service. Any remaining payments due under the Plan shall be paid as otherwise provided herein.



**Exhibit 10.8**

**SEMPRA ENERGY  
AMENDMENT AND RESTATEMENT OF THE  
CASH BALANCE RESTORATION PLAN**

## **1. EFFECTIVE DATE**

The Sempra Energy Cash Balance Restoration Plan (the "Plan"), formerly the "Sempra Energy Excess Cash Balance Plan", is effective as of July 1, 1998.

Sempra Energy hereby amends and restates this Plan in its entirety effective as of the date of adoption, except as otherwise provided herein. The elections and amendments made in accordance with the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79 and Internal Revenue Service Notice 2007-86 shall be effective for the relevant periods on or before December 31, 2008.

## **2. PURPOSE**

This Plan serves two purposes. First, it provides benefits for certain employees in excess of the limitations on benefits under the Sempra Energy Cash Balance Plan ("Basic Plan") imposed by Section 415 of the Internal Revenue Code of 1986. The portion of the Plan providing these benefits is intended to be an "excess benefit plan" as defined in Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Second, it provides benefits for certain employees in excess of the limitations on benefits under the Basic Plan imposed by Section 401(a) (17) of the Code.

## **3. ADMINISTRATION**

This Plan shall be administered by the Compensation Committee of Sempra Energy ("Compensation Committee") in a manner consistent with the administration of the Basic Plan. However, the portion of this Plan which is an unfunded "excess benefit plan" as defined in Section 3(36) of ERISA shall be administered as such and is exempt from the provisions of Title I of ERISA pursuant to Section 4(b) (5) of ERISA, and the rest of this Plan shall be administered as an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management employees. The Compensation Committee's decisions in all matters involving the interpretation and application of this Plan shall be final. The Company's Senior Human Resources Officer shall have discretionary authority with respect to administrative matters relating to this Plan, except when exercise of such authority would materially affect the cost of the Plan to the Employer, materially increase benefits to Participants, or affect such Senior Officer in a manner materially different from other Participants.

## **4. ELIGIBILITY**

All employees whose pension benefits under the Basic Plan are limited by compensation and earnings limitations imposed by the Code shall be eligible for benefits under this Plan. In no event shall an employee who is not entitled to benefits under the Basic Plan be eligible for a benefit under this Plan.

## 5. AMOUNT OF BENEFITS

### (A) 415 Make-Up

The benefits payable under this subparagraph (a) to an eligible employee whose benefits under the Basic Plan are limited by the provisions of Section 415 of the Internal Revenue Code incorporated in the Basic Plan, or to his beneficiary(ies), shall equal the excess, if any, of:

- (i) the benefits which would be paid to such employee or on his behalf to his beneficiary(ies) under the Basic Plan, if the provisions of such Plan were administered without regard to the special benefit limitations set forth in the Basic Plan, over
- (ii) the benefits which are paid to such employee or on his behalf to his beneficiary(ies) under the Basic Plan.

### (B) 401(a) (17) Make-Up

The benefits payable under this subparagraph (B) to an eligible employee whose benefits under the Basic Plan are limited by the covered compensation limitations of Internal Revenue Code Section 401(a) (17) incorporated in the Basic Plan, or to his beneficiary(ies), shall equal the excess, if any, of:

- (i) the benefits which would be paid to such employee or on his behalf to his beneficiary(ies) under the Basic Plan, and, if applicable, to the participant, under subparagraph (a), if the provisions of such Plan were administered without regard to the covered compensation maximum set forth in the Basic Plan (and, with respect to covered compensation paid or payable in plan years beginning on or after January 1, 2007, with a maximum compensation limit for each plan year of Two Million Dollars (\$2,000,000)), over
- (ii) the benefits which are paid to such employee or on his behalf to his beneficiary(ies) under the Basic Plan and, if applicable to the Participant, under subparagraph (a) .

## 6. PAYMENT OF BENEFITS

### (A) Distribution Options for Certain SERP Participants

- (i) In the case of an employee who is eligible for benefits under this Plan, and is a participant under the Sempra Energy Supplemental Executive Retirement Plan, as of December 31, 2005, the payment of benefits to such employee under this Plan shall be made in accordance with this subsection (A).
- (ii) Unless the employee exercises the Lump Sump Option and receives a lump sum distribution from the Basic Plan, the payment of such employee's Pre-Section 409A Benefit under this Plan shall be in the same payment form and at the same time as the payment of benefits to the employee or on his behalf to his beneficiary(ies) under the Basic Plan. In the event an

employee receives a lump sum distribution from the Basic Plan, payment of such employee's Pre-Section 409A Benefit under this Plan will be made in the form of a straight life annuity. However, the employee may request, in writing, payment of such employee's Pre-Section 409A Benefit under one of the following alternatives provided such request is filed with Sempra Energy ("Company") at least three months prior to his Retirement Date or Termination under the Basic Plan:

- (a) The employee may request payment of such employee's Pre-Section 409A Benefit under any of the other annuity options for which he is eligible under the Basic Plan. The amount of such optional annuity benefit with respect to his or her Pre-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The request will be subject to approval of the Company's Senior Human Resources Officer and, if approved, will be irrevocable as long as the employee receives a lump sum distribution from the Basic Plan.
- (b) The employee may request payment of such employee's Pre-Section 409A Benefit in a lump sum. The amount of the distribution with respect to his or her Pre-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the actuarial factors specified in the Basic Plan. In the event such a request is timely filed, the request shall be considered by the Senior Human Resources Officer who shall have the sole discretion, considering the best interests of the Company, to allow a lump sum distribution. The decision of the Senior Human Resources Officer shall be final. The employee will be required to show good reason for receiving a lump sum distribution and, file the request at least three months prior to separation from service as a condition of having the request approved. If the lump sum pay out is approved, the lump sum form of pay out shall be irrevocable even if the employee changes his election under the Basic Plan.

The employee's beneficiary(ies) with respect to his or her Pre-Section 409A Benefit under this Plan shall be exactly the same as his beneficiary(ies) under the Basic Plan unless he elects and receives a lump sum distribution from the Basic Plan. In this event, the following provisions will apply if such employee's Pre-Section 409A Benefit under this Plan is paid in the form of a joint and survivor annuity.

The joint and survivor annuity is only available with respect to such employee's Pre-Section 409A Benefit the employee designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan. If the spouse, or beneficiary dies before the employee's Retirement Date under the Basic Plan, the joint and survivor annuity with respect to such employee's Pre-Section 409A Benefit is canceled and the benefit is paid in the form of a straight life annuity.

- (iii) The payment of such employee's Post-Section 409A Benefit under this Plan shall be in a lump sum following the employee's separation from service, unless the employee elects to receive an optional annuity form of payment under subparagraph (a). The amount of the employee's

lump sum distribution with respect to his Post-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the actuarial factors specified in the Basic Plan.

- (a) The employee may elect, in writing, payment following the employee's separation from service under any of the following annuity options: (I) a straight life annuity, (II) a joint and 50% survivor annuity, and (III) a joint and 100% survivor annuity. The amount of such optional annuity benefit with respect to such employee's Post-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The election will be subject to approval of the Company's Senior Human Resources Officer, in his or her discretion, and, if approved, will be irrevocable (except as provided in subsection (C)).
- (b) An employee's election under subparagraph (a) may be made with respect to an employee's Post-Section 409A Benefit on or after January 1, 2006 and on or before December 31, 2008 in accordance with the transitional relief under Section 409A of the Internal Revenue Code, Internal Revenue Service Notice 2006-79 and Internal Revenue Service Notice 2007-86; provided, however, that an employee's election made in 2006 shall only apply with respect to payments that would not otherwise be payable in 2006, and shall not cause payments to be made in 2006 that would not otherwise be payable in 2006; and, provided, further, that an employee's election made in 2007 shall apply only with respect to payments that would not otherwise be payable in 2007 and shall not cause payments to be made in 2007 that would not otherwise be payable in 2007; and, provided, further, that an employee's election made in 2008 shall apply only with respect to payments that would not otherwise be payable in 2008 and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. No election under subparagraph (a) may be made by an employee after December 31, 2008.
- (c) The joint and survivor annuity is only available under clause (a)(II) or (III) if the employee designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan. If the spouse, or beneficiary dies before the employee's separation from service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity.
- (d) Except as provided in subsection (C), such employee may not change the form and time of payment of such employee's Post-Section 409A Benefit under this Plan after December 31, 2008.
- (iv) Notwithstanding the foregoing, in no event shall a distribution option be available or apply to an employee's Pre-Section 409A Benefit if such distribution option would result in a material modification of the employee's Pre-Section 409A Benefit, as determined under Section 409A of the Code.

## **(B) Distribution Options for other Employees**

Except as provided in subsection (A), in the case of an employee who first became eligible for benefits under this Plan (as determined under Section 4) on or before December 31, 2005, the payment of benefits under this Plan shall be made in a lump sum in accordance with this subsection (B) following the employee's separation from service, unless the employee elects to receive an optional annuity form of payment under paragraph (i). The amount of the employee's lump sum distribution under this Plan shall be computed as specified in Section 5 of this Plan using the actuarial factors specified in the Basic Plan.

- (i) The employee may elect, in writing, payment following the employee's separation from service under any of the following annuity options: (a) a straight life annuity, (b) a joint and 50% survivor annuity, and (c) a joint and 100% survivor annuity. The amount of such optional annuity benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The election will be subject to approval of the Company's Senior Human Resources Officer, in his or her discretion, and, if approved, will be irrevocable (except as provided in subsection (C)).
- (ii) An employee's election under paragraph (i) may be made with respect to such employee's benefit under this Plan on or after January 1, 2006 and on or before December 31, 2008 in accordance with the transitional relief under Section 409A of the Internal Revenue Code, Internal Revenue Code Service Notice 2006-79 and Internal Revenue Service Notice 2007-86; provided, however, that an employee's election made in 2006 shall apply only with respect to payments that would not otherwise be payable in 2006, and shall not cause payments to be made in 2006 that would not otherwise be payable in 2006; and, provided, further, that an employee's election made in 2007 shall apply only with respect to payments that would not otherwise be payable in 2007, and shall not cause payments to be made in 2007 that would not otherwise be payable in 2007; and, provided, further, that an employee's election made in 2008 shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. No election under paragraph (i) may be made by an employee after December 31, 2008.
- (iii) The joint and survivor annuity is only available under paragraph (i)(b) or (c) if the employee designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan. If the spouse, or beneficiary dies before the employee's separation from service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity.
- (iv) Except as provided in subsection (C), such employee may not change the form and time of payment of benefits under this Plan after December 31, 2008.

### **(C) Changes in Distribution Option**

An employee described in subsection (A) or (B) may elect to change the form of the payment of such employee's Post-Section 409A Benefit under this Plan, as follows:

- (i) The employee may elect, in writing, to change the form of payment of such employee's Post-Section 409A Benefit to any of the following options: (a) a lump sum, (b) a straight life annuity, (c) a joint and 50% survivor annuity, and (d) a joint and 100% survivor annuity. The amount of such optional benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The employee's election shall be subject to paragraphs (ii) and (iii). Except as provided in paragraph (iv), the employee's election under this paragraph (i) shall be irrevocable. The joint and survivor annuity is only available under paragraph (c) or (d) if the employee designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan. If the spouse, or beneficiary dies before the employee's separation from service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity.
- (ii) The employee's election under paragraph (i) shall not take effect until at least 12 months after his election is made.
- (iii) In the event the employee's election under paragraph (i) becomes effective, the payment of such employee's Post-Section 409A Benefit under the option shall commence following the fifth anniversary of the employee's separation from service.
- (iv) The employee may change the annuity option elected under paragraph (i) to another annuity option specified under paragraph (i), provided that such change is made prior to the commencement of the payment of benefits under this Plan.

### **(D) Mandatory Distribution**

The foregoing notwithstanding, if present value of the employee's benefit hereunder is less than \$10,000, the benefit shall be distributed in a lump sum following the employee's separation from service.

### **(E) Pre-Section 409A Benefit; Post-Section 409A Benefit.**

- (i) An employee's "Pre-Section 409A Benefit" means the portion of the employee's benefit under the Plan, if any, to which the employee had a legal binding right, and which was earned and vested, as of December 31, 2004, determined in accordance with Section 409A of the Code.
- (ii) An employee's "Post-Section 409A Benefit" means an employee's benefit under this Plan, less such employee's Pre-Section 409A Benefit (if any).

**(F) Distributions to Newly Eligible Employees**

- (i) In the case of an employee who first becomes eligible for benefits under this Plan (as determined under Section 4) after December 31, 2005, the payment of benefits under this Plan shall be made in a lump sum in accordance with this subsection (F) following the employee's separation from service, except as provided in paragraph (ii).
- (ii) The employee may elect to change the form of the payment of benefits under this Plan, as follows:
  - (a) The employee may elect, in writing, payment following the employee's separation from service under any of the following annuity options: (I) a straight life annuity, (II) a joint and 50% survivor annuity, and (III) a joint and 100% survivor annuity. The amount of such optional annuity benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The employee's election shall be subject to clauses (II) and (III). Except as provided in subparagraph (d), the employee's election under this subparagraph (a) shall be irrevocable. The joint and survivor annuity is only available under clause (II) or (III) if the employee designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan. If the spouse, or beneficiary dies before the employee's separation from service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity.
  - (b) The employee's election under subparagraph (a) shall not take effect until at least 12 months after his election is made.
  - (c) In the event the employee's election under subparagraph (a) becomes effective, the payment of benefits under the annuity option shall commence following the fifth anniversary of the employee's separation from service.
  - (d) The employee may change the annuity option elected under subparagraph (a) to another annuity option specified under subparagraph (a), provided that such change is made prior to the commencement of the payment of benefits under this Plan.

**(G) Separation from Service**

"Separation from service", with respect to an employee means the employee's "separation from service," as defined in Treasury Regulation Section 1.409A-1(h).

Effective as of January 1, 2008, and in accordance with Treasury Regulation Section 1.409A-1(h)(3) (and the transitional relief under Internal Revenue Service Notice 2005-1, the proposed regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79 and Internal Revenue Notice 2007-86), and in connection with the formation of RBS Sempra Commodities (as



defined in Section 10), with respect to the benefits payable under this Plan to a participant in the Plan who is an employee of SET LLC or SES (each, as defined in Section 10), and who is a Transferred Employee (as defined in Section 10), the foregoing definition of “separation from service” shall be applied by determining the “service recipient,” as defined in Treasury Regulation Section 1.409A-1(g), by substituting the language “at least 20%” for the language “at least 80%” and applying Sections 1563(a)(1), (2) and (3) for purposes of determining a controlled group of corporations under Section 414(b) of the Code and in applying Treasury Regulation Section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c) of the Code. This subsection shall not apply with respect to the benefits payable under this Plan to any other participant.

**(H) Distributions to Specified Employees**

Notwithstanding the foregoing, in the case of the separation from service of an employee who is a “specified employee,” as defined in Section 409A(a)(2)(B)(i) of the Code with respect to the Company, the payment of such employee’s Post-Section 409A Benefit to such employee shall not be made before the date which is six months after the date of such employee’s separation from service (or, if earlier, the date such employee’s death) in accordance with Section 409A(a)(2)(B)(i) of the Code and the Treasury Regulations thereunder.

**(I) Prohibition on Acceleration of Distributions**

The time or schedule of payment of any payment of an employee’s Post-Section 409A Benefit under the Plan shall not be subject to acceleration, except as provided under Treasury Regulations promulgated in accordance with Section 409A(a)(3) of the Code.

**7. EMPLOYEE’S RIGHTS**

An employee shall not be entitled to any payments from the Basic Plan on the basis of any benefits to which he may be entitled under this Plan. Benefits under this Plan shall be payable only from the general assets of the Company.

**8. AMENDMENT AND DISCONTINUANCE**

The Company expects to continue this Plan indefinitely, but reserves to the Compensation Committee the right to amend or discontinue the Plan if, in the Compensation Committee's sole judgment, such a change is deemed necessary or desirable. However, if the Compensation Committee shall amend or discontinue this Plan, the Company shall be liable for any benefits accrued under this Plan as of the date of such amendment or termination determined on the basis of each employee's presumed termination of employment as of such date. Provided further, that if the Department of Labor determines, or issues regulations under which, the Plan would be subject to Parts 2 and/or 3 of Title I of the Employees Retirement Income Security Act of 1974, as amended, the Compensation Committee may taken such action or actions as it deems appropriate. Such actions may include, but are not limited to, modification, termination or partial termination of the Plan. In the event of such modification,

termination, or partial termination, the Compensation Committee may make immediate distribution of some or all Accounts, as it deems necessary or appropriate.

## 9. OFFSET FOR CERTAIN BENEFITS PAYABLE UNDER SPLIT-DOLLAR LIFE INSURANCE AGREEMENTS

- (A) Some of the Participants under this Plan own life insurance policies (the "Policies") purchased on their behalf to fund their retirement benefits. The ownership of these Policies by each Participant is, however, subject to certain conditions (set forth in a "Split-Dollar Life Insurance Agreement" or comparable agreements between the Participant and the Company) and, if the Participant fails to meet the conditions set forth in the Split-Dollar Life Insurance Agreement, the Participant may lose certain rights under the Policy. In the event that a Participant satisfies the conditions specified in Section 5 or 6 of the Split-Dollar Life Insurance Agreement, so that the Participant or his beneficiary becomes entitled to benefits under one of those sections, the value of those benefits shall constitute an offset to any benefits otherwise payable under this Plan. As the case may be, this offset (the "Offset Value") shall be calculated by determining the value of benefits payable under the Split-Dollar Life Insurance Agreement, that is, the cash surrender value of the Policy, or in the case of the Participant's death, the death benefits payable to the beneficiary under the Policy. The Offset Value shall then be compared to the Actuarial Equivalent (as defined in Section 9(D) of the benefits payable under this Plan (the "Plan Value"), and the Plan Value shall be reduced by the Offset Value.
- (B) At the time when the Participant terminates employment for any reason, if the Plan Value exceeds the present value (determined using the interest rate specified in Section 9(D) of the Offset Value, the excess of the Value over the present value of the Offset Value shall be paid to the Participant or beneficiary at that time in a lump sum if the value does exceed \$25,000 otherwise it shall be paid in accordance with the terms of this Plan. Such payment shall completely discharge all obligations owed under this Plan on account of Participant's participation in this Plan.
- (C) If the Policy described in Section 9(A) is not on the life of the Participant, the insured dies prior to the Participant becoming eligible for benefits under the Plan, and the Participant or the Participant's beneficiary subsequently becomes eligible for benefits hereunder, the Actuarial Equivalent (as defined in Section 9(D) below) of the benefits payable hereunder shall be offset by the Actuarial Equivalent of the payments previously paid to the Participant in the Split-Dollar Life Insurance Agreement. Any remaining amount due the Participant or the Participant's beneficiary shall thereupon be paid in a cash lump sum.
- (D) For purposes of this Section, the Actuarial Equivalent shall mean a benefit in the form of a lump sum payment which has the equivalent value computed using the actuarial factors specified in the Basic Plan.

## 10. EMPLOYEES OF SEMPRA ENERGY TRADING CORPORATION AND SEMPRA ENERGY SOLUTIONS LLC

This Section 10 includes special provisions relating to the benefits of the participants in the Plan who are employed by Sempra Energy Trading Corporation (“SET”) and Sempra Energy Solutions LLC (“SES”).

### (A) Background

SET and SES maintain the Basic Plan for the benefit of their respective eligible employees. Certain SET and SES employees are participants in this Plan.

On July 9, 2007, Sempra Energy, Sempra Global, Sempra Energy Trading International, B.V. (“SETI”) and The Royal Bank of Scotland plc (“RBS”) entered into the Master Formation and Equity Interest Purchase Agreement, dated as of July 9, 2007 (the “Master Formation Agreement”), which provides for the formation of a partnership, RBS Sempra Commodities LLP (“RBS Sempra Commodities”), to purchase and operate Sempra Energy’s commodity-marketing businesses. Pursuant to a Master Formation Agreement, RBS Sempra Commodities will be formed as a United Kingdom limited liability partnership and RBS Sempra Commodities will purchase Sempra Energy’s commodity-marketing subsidiaries.

Prior to the Closing, SET will be converted into a limited liability company (“SET LLC”). Following such conversion, SET employees will be employed by SET LLC. Prior to the Closing, SES will become a wholly-owned subsidiary of SET LLC.

Also, prior to the Closing, Sempra Energy will own, directly or indirectly through wholly-owned subsidiaries, 100% of the membership interests in SET LLC and SES. Prior to the Closing, SET LLC and SES will be disregarded entities for federal income tax purposes.

Effective as of the Closing, RBS Sempra Commodities will purchase 100% of the membership interests in SET LLC.

As provided in the Master Formation Agreement, an employee of SET LLC who is actively at work on the Closing Date will continue to be employed by SET LLC immediately after the Closing Date, and an employee of SES who is actively at work on the Closing Date will continue to be employed by SES (each such employee is referred to as a Transferred Employee).

Also, as provided in the Master Formation Agreement, with respect to an employee of SET LLC or SES who is not actively at work on the Closing Date because such employee is on approved short-term disability or long-term disability leave in accordance with the Sempra Plans (such employee is referred to as an Inactive Employee), if such Inactive Employee returns to active work at the conclusion of such leave, and in any case within six months following the Closing Date (or such longer period as is required by applicable law), such Inactive Employee shall become a

Transferred Employee as of the date of such person's return to active employment with the SET LLC or SES (such date is referred to as the Transfer Date).

Effective as of the Closing, SET LLC will be a wholly-owned subsidiary of RBS Sempra Commodities, SES will be an indirect, wholly-owned subsidiary of RBS Commodities, Sempra Global and SETI will be partners in RBS Sempra Commodities, and Sempra Energy will own, indirectly through wholly-owned subsidiaries, at least a 50% profits interest in RBS Sempra Commodities.

**(B) Cessation of Participation by SET LLC and SES; Cessation of Benefit Accruals**

- (i) Prior to the Closing, SET LLC shall be a participating employer in this Plan. Effective as of the Closing Date, SET LLC will cease to be a participating employer in this Plan.
- (ii) Prior to the Closing, SES shall be a participating employer in this Plan. Effective as of the Closing Date, SES will cease to be a participating employer in this Plan.
- (iii) Effective as of the Closing Date (or the Transfer Date, if applicable), a Transferred Employee who is a participant in the Plan shall cease to accrue any further benefits as an active participant in this Plan and shall have no rights to continue as an active participant under this Plan (without derogation of the rights of such Transferred Employee as a vested, terminated participant in this Plan).
- (iv) No Transferred Employee shall become a participant in the Plan on or after the Closing Date.

**(C) Separation from Service**

- (i) Effective as of the Closing, RBS Sempra Commodities will be a member of a group of trades or businesses (whether or not incorporated) under common control for purposes of Section 414(c) of the Code and Treasury Regulation Section 1.414(c)-2, as determined under Treasury Regulation Section 1.409A-1(h)(3), that includes Sempra Energy and its wholly-owned subsidiaries. Consequently, effective as of the Closing, RBS Sempra Commodities will be included in the "service recipient" that includes Sempra Energy and its wholly-owned subsidiaries, as defined under Treasury Regulation Section 1.409A-1(h)(3).
- (ii) A Participant who is an employee of SET LLC or SES, and who is a Transferred Employee effective as of the Closing Date, will not have a separation from service solely as a result of the purchase of the membership interests of SET LLC by RBS Sempra Commodities effective as of the Closing.
- (iii) A Participant who is an employee of SET LLC or SES, who is an Inactive Employee, and who becomes a Transferred Employee effective on a Transfer Date after the Closing Date, will not have a separation from service solely as a result of the purchase of the membership interests of SET LLC by RBS Sempra Commodities or becoming a Transferred Employee on a Transfer Date after the Closing Date.

(iv) For purposes of the Plan, a participant in the Plan who is an employee of SET LLC or SES, and who is or becomes a Transferred Employee, will have a separation from service on or after the Closing Date (or the Transfer Date, if applicable), as determined under Section 6(G) and Treasury Regulation Section 1.409A-1(h).

**(D) Certain Defined Terms**

For purposes of this Section 10, the terms “Closing,” “Closing Date,” “Inactive Employee,” “Sempra Plans,” “Transferred Employees” and “Transfer Date” shall have the meanings ascribed to such terms under the Master Formation Agreement.

**11. SECTION 409A OF THE CODE**

This Plan shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (subject to the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79, Internal Revenue Service Notice 2007-86 and other applicable authority issued by the Internal Revenue Service). As provided in Internal Revenue Service Notice 2006-79 and Internal Revenue Service Notice 2007-86, notwithstanding any other provision of this Plan, with respect to an election or amendment to change a time and form of payment under the Plan made on or after January 1, 2006 and on or before December 31, 2006, the election or amendment shall apply only to amounts that would not otherwise be payable in 2006 and shall not cause an amount to be paid in 2006 that would not otherwise be payable in 2006; and, with respect to an election or amendment to change a time and form of payment under this Plan made on or after January 1, 2007 and on or before December 31, 2007, the election or amendment may apply only to amounts that would not otherwise be payable in 2007 and may not cause an amount to be paid in 2007 that would not otherwise be payable in 2007; and, with respect to an election or amendment to change a time and form of payment under this Plan made on or after January 1, 2008 and on or before December 31, 2008, the election or amendment may apply only to amounts that would not otherwise be payable in 2008 and may not cause an amount to be paid in 2008 that would not otherwise be payable in 2008.

Executed at San Diego, California this \_\_\_\_ day of \_\_\_\_\_, 2007.

SEMPRA ENERGY

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT 12.1**  
**SEMPRA ENERGY**  
**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES**  
**AND PREFERRED STOCK DIVIDENDS**  
**(Dollars in millions)**

	2003	2004	2005	2006	2007	June 30, 2008
Fixed charges and preferred stock dividends:						
Interest	\$ 345	\$ 332	\$ 342	\$ 413	\$ 379	\$ 152
Interest portion of annual rentals	4	4	5	6	6	2
Preferred dividends of subsidiaries (1)	11	12	10	15	14	8
Total fixed charges	360	348	357	434	399	162
Preferred dividends for purpose of ratio	-	-	-	-	-	-
Total fixed charges and preferred dividends for purpose of ratio	\$ 360	\$ 348	\$ 357	\$ 434	\$ 399	\$ 162
Earnings:						
Pretax income from continuing operations	\$ 814	\$ 1,105	\$ 947	\$ 1,732	\$ 1,649	\$ 815
Add:						
Total fixed charges (from above)	360	348	357	434	399	162
Distributed income of equity investees	72	59	73	431	19	8
Less:						
Interest capitalized	26	8	28	58	100	52
Equity in income (loss) of unconsolidated subsidiaries and joint ventures	5	36	66	156	90	54
Minority interest in income of consolidated subsidiaries	-	-	-	7	31	(8)
Total earnings for purpose of ratio	\$ 1,215	\$ 1,468	\$ 1,283	\$ 2,376	\$ 1,846	\$ 887
Ratio of earnings to combined fixed charges and preferred stock dividends	3.38	4.22	3.59	5.47	4.63	5.48
Ratio of earnings to fixed charges	3.38	4.22	3.59	5.47	4.63	5.48

(1) In computing this ratio, "Preferred dividends of subsidiaries" represents the before-tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.



## CERTIFICATION

I, Donald E. Felsing, certify that:

1. I have reviewed this report on Form 10-Q of Sempra Energy;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 7, 2008

/s/ Donald E. Felsing

Donald E. Felsing

Chief Executive Officer



## CERTIFICATION

I, Mark A. Snell, certify that:

1. I have reviewed this report on Form 10-Q of Sempra Energy;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 7, 2008

\_\_\_\_\_  
/s/ Mark A. Snell  
Mark A. Snell  
Chief Financial Officer

## Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Sempra Energy (the "Company") certifies that:

- (i) the Quarterly Report on Form 10-Q of the Company filed with the Securities and Exchange Commission for the quarter ended June 30, 2008 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 7, 2008

\_\_\_\_\_  
/s/ Donald E. Felsing  
Donald E. Felsing  
Chief Executive Officer

## Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Semptra Energy (the "Company") certifies that:

- (i) the Quarterly Report on Form 10-Q of the Company filed with the Securities and Exchange Commission for the quarter ended June 30, 2008 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 7, 2008

/s/ Mark A. Snell

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Mark A. Snell  
Chief Financial Officer

SEMPRA ENERGY  
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Overview

On April 1, 2008, Sempra Energy (the company) and The Royal Bank of Scotland (RBS) completed the formation of their previously announced partnership, RBS Sempra Commodities LLP (the partnership), to purchase, own and operate the commodity-marketing businesses previously held as subsidiaries of Sempra Energy. Additional information regarding the formation of the partnership is provided in the company's 2007 Annual Report on Form 10-K, Report on Form 8-K dated April 1, 2008, and Quarterly Reports on Form 10-Q for the periods ended March 31, 2008 and June 30, 2008.

The following Unaudited Pro Forma Condensed Consolidated Income Statement is presented to illustrate the pro forma effects of the transaction on the historical results of operations of the company. The unaudited pro forma condensed consolidated income statement for the six months ended June 30, 2008 gives effect to the transaction as if it had occurred on January 1, 2008. The pro forma adjustments are based upon available information, preliminary estimates of closing information and certain assumptions that the company's management believes are reasonable, and are discussed in the accompanying notes. The Unaudited Pro Forma Condensed Consolidated Income Statements and accompanying notes should be read in conjunction with the company's 2007 Annual Report on Form 10-K and Quarterly Reports on Form 10-Q for the periods ended March 31, 2008 and June 30, 2008. An unaudited pro forma condensed consolidated balance sheet as of December 31, 2007 and unaudited pro forma condensed consolidated income statement for the year ended December 31, 2007 were previously provided as Exhibit 99.1 in the company's Report on Form 8-K dated April 1, 2008.

The unaudited pro forma financial data is provided for informational purposes only and should not be considered indicative of actual operating results that would have been achieved had the transaction been consummated on the date indicated and do not purport to indicate the results of operations as of any future date or for any future period.

SEMPRA ENERGY

UNAUDITED PRO FORMA CONDENSED STATEMENT OF CONSOLIDATED INCOME

Six months ended June 30, 2008

(Dollars in millions, except per share amounts)	Pro Forma Adjustments			Pro Forma Sempra Energy
	Historical Sempra Energy	Reversal of Historical Commodity- marketing Businesses (1) (3)	Pro Forma Earnings from RBS Sempra Commodities LLP (2)(4)	
<b>REVENUES</b>				
Sempra Utilities	\$ 4,177	\$ --	\$ --	\$ 4,177
Sempra Global and parent	1,596	(457)	--	1,139
Total revenues	5,773	(457)	--	5,316
<b>EXPENSES AND OTHER INCOME</b>				
Sempra Utilities:				
Cost of natural gas	(2,019)	--	--	(2,019)
Cost of electric fuel and purchased power	(383)	--	--	(383)
Sempra Global and parent:				
Cost of natural gas, electric fuel and purchased power	(922)	--	--	(922)
Other cost of sales	(153)	133	--	(20)
Operation and maintenance	(1,252)	214	--	(1,038)
Depreciation and amortization	(346)	6	--	(340)
Franchise fees and other taxes	(154)	--	--	(154)
Gains on sale of assets	114	--	--	114
Equity earnings:				
RBS Sempra Commodities LLP	146	--	45	191
Other	15	--	--	15
Other income, net	36	--	--	36
Interest income	24	(5)	--	19
Interest expense	(98)	12	--	(86)
Preferred dividends of subsidiaries	(5)	--	--	(5)
Income from continuing operations before income taxes and equity earnings of certain unconsolidated subsidiaries	776	(97)	45	724
Income tax expense	(329)	40	(16)	(305)
Equity earnings, net of income tax	39	(3)	--	36
Income from continuing operations	\$ 486	\$ (60)	\$ 29	\$ 455
Basic earnings per share:				
Income from continuing operations	\$ 1.93			\$ 1.80
Weighted-average number of shares outstanding (thousands)	252,100			252,100
Diluted earnings per share:				
Income from continuing operations	\$ 1.90			\$ 1.78
Weighted-average number of shares outstanding (thousands) (5)	256,169			256,169

See Notes to Unaudited Pro Forma Condensed Statement of Consolidated Income.



## Notes to Unaudited Pro Forma Condensed Statement of Consolidated Income

1. Reflects the reversal of the historical results of operations for the three months ended March 31, 2008, for the company's commodity-marketing businesses sold to the partnership.
2. Reflects pro forma earnings from the company's equity investment in the partnership as allocated pursuant to the terms of the partnership agreement for the three months ended March 31, 2008. The total pro forma earnings of the partnership were based on the historical earnings of the company's commodity-marketing businesses sold to the partnership.
3. Pro forma income tax adjustments are based on the company's statutory tax rate.
4. The pro forma income tax adjustment is based on the estimated statutory rate related to the commodity-marketing businesses.
5. Diluted earnings per share for the six months ended June 30, 2008 reflects the inclusion of 4,069,000 additional shares outstanding for the dilutive effect of stock options and restricted stock awards and units.