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

FORM 10-Q

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

For the quarterly period ended September 30, 2002

Commission file number 1-14201

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)

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

Common stock outstanding on October 31, 2002: 204,862,909

ITEM 1. FINANCIAL STATEMENTS.

SEMPRA ENERGY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
Dollars in millions except per-share amounts

	Three Months Ended September 30,	
	2002	2001
OPERATING REVENUES		
California utilities:		
Natural gas	$ 657	$ 605
Electric	354	282
Other	373	530
Total operating revenues	1,384	1,417
OPERATING EXPENSES		
Cost of natural gas distributed	216	171

Electric fuel and net purchased power 81 34
Other operating expenses 588 806
Depreciation and amortization 147 146
Franchise payments and other taxes 42 41
Total operating expenses 1,074 1,198
Operating Income 310 219
Other income (expense) - net (10) 21
Preferred dividends of subsidiaries (3) (3)
Trust preferred distributions by subsidiary (4) (4)
Interest expense (74) (80)
Income before income taxes 219 153
Income taxes 69 57
Net income $ 150 $ 96
Weighted-average number of shares outstanding:
Basic* 204,932 204,180
Diluted* 205,366 206,586
Net income per share of common stock (basic) $ 0.73 $ 0.47
Net income per share of common stock (diluted) $ 0.73 $ 0.46
Common

dividends declared per share $ 0.25 $ 0.25 ======= ======= *In thousands of shares See notes to Consolidated Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
Dollars in millions except per-share amounts

	Nine Months Ended September 30,	
	2002	2001
OPERATING REVENUES		
California utilities:		
Natural gas	$ 2,287	$ 3,598
Electric	950	1,392
Other	1,101	1,441
Total operating revenues	4,338	6,431
OPERATING EXPENSES		
Cost of natural gas distributed	945	2,230
Electric fuel and net purchased power	221	696
Other operating expenses	1,803	2,066
Depreciation and amortization	447	428
Franchise payments and other taxes	129	149
Total operating expenses	3,545	5,569
Operating Income	793	862
Other income - net	41	83
Preferred dividends of subsidiaries	(9)	(9)

Trust preferred distributions by subsidiary (13) (13) Interest expense (224) (260) --- Income before income taxes 588 663 Income taxes 145 253 --- Net income $ 443 $ 410 ======= ======= Weighted-average number of shares outstanding: Basic* 205,047 203,296 --- Diluted* 206,263 205,123 --- Net income per share of common stock (basic) $ 2.16 $ 2.02 --- Net income per share of common stock (diluted) $ 2.15 $ 2.00 --- Common dividends declared per share $ 0.75 $ 0.75 ======= ======= *In thousands of shares See notes to Consolidated Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
Dollars in millions
Balance at ----

September 30, December 31, 2002 2001 -----

ASSETS Current assets: Cash and cash equivalents $ 420 $ 605 Accounts receivable –

trade 496 660
Accounts and notes receivable – other 110 130
Due from unconsolidated affiliates 103 57 Income taxes receivable — 98 Trading assets 4,863 2,740 Fixed-price contracts and other derivatives 3 57 Regulatory assets arising from fixed-price contracts and other derivatives 133 193 Other regulatory assets 75 73
Inventories 126 124 Deferred income taxes 27 — Other 108 71
Total current assets 6,464 4,808
Investments and other assets:
Fixed price contracts and other derivatives 33 27 Regulatory assets arising from fixed-price contracts and other derivatives 912 830 Other regulatory assets 794 1,005 Nuclear-decommissioning trusts 498 526
Investments 1,227 1,169
Sundry 659 574
Total investments and other assets 4,123 4,131
Property, plant and equipment:
Property, plant and equipment 13,487 12,806
Less accumulated depreciation and amortization (6,901) (6,589)
Total property, plant and equipment — net 6,586 6,217
Total assets $17,173 $15,156

See notes to Consolidated Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
Dollars in millions

	Balance at -- September 30, 2002	December 31, 2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 685	$ 875
Accounts payable - trade	544	702
Accounts payable - other	38	114
Income taxes payable	17	--
Deferred income taxes	--	70
Trading liabilities	3,637	1,793
Dividends and interest payable	142	139
Regulatory balancing accounts - net	711	660
Regulatory liabilities	9	19
Fixed-price contracts and other derivatives	134	195
Current portion of long-term debt	183	242
Other	765	715
Total current liabilities	6,865	5,524
Long-term debt	3,876	3,436
Deferred credits and other liabilities:		
Due to unconsolidated affiliate	162	160
Customer		

advances for construction 73 67 Post-retirement benefits other than pensions 141 145 Deferred income taxes 899 847 Deferred investment tax credits 91 95 Fixed-price contracts and other derivatives 912 835 Regulatory liabilities 115 86 Deferred credits and other liabilities 908 865 ----- ---------- Total deferred credits and other liabilities 3,301 3,100 ---------- ---------- - Preferred stock of subsidiaries 204 204 ----- ---------- Mandatorily redeemable trust preferred securities 200 200 ----- ---------- Commitments and contingent liabilities (Note 2) SHAREHOLDERS' EQUITY Common stock (750,000,000 shares authorized; 204,832,904 and 204,475,362 shares outstanding at September 30, 2002 and December 31, 2001, respectively) 1,435 1,495 Retained earnings 1,764 1,475 Deferred compensation relating to ESOP (34) (36) Accumulated other comprehensive income (loss)

(438) (242) ---------- -- Total shareholders' equity 2,727 2,692 ------- ------- Total liabilities and shareholders' equity $17,173 $15,156 ======= ======= See notes to Consolidated Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
Dollars in millions
Nine Months Ended
September 30, ------ ------------ 2002
2001 ------ ------
CASH FLOWS FROM OPERATING ACTIVITIES Net income $ 443 $ 410 Non-cash charges (credits) to net income: Depreciation and amortization 447 428 Deferred income taxes and investment tax credits (22) 101 Other - net 6 (9) Changes in other assets 132 (249) Changes in other liabilities 70 103 Net changes in other working capital components (96) (246) ------ ------ Net cash provided by operating activities 980 538 ------ ------ -- CASH FLOWS FROM INVESTING ACTIVITIES Expenditures for property, plant and equipment (802) (673) Investments and acquisitions, net of cash acquired (163) -- Dividends received from unconsolidated affiliates 11 -- Net proceeds from sale of Energy America -- 52 Other - net (204) 24 ---------- Net cash used in investing activities (1,158) (597) ------ ------ CASH FLOWS FROM FINANCING ACTIVITIES Common stock dividends (154) (152) Repurchases of common stock (16) -- Issuances of common stock 12 -- Issuances of long-

term debt 800 675 Payments on long-term debt (431) (391) Loan from unconsolidated affiliate -- 160 Increase(decrease)in short-term debt -- net (200) 65 Other (18) 10 ------ ------ - Net cash provided by (used in) financing activities (7) 367 ------ ------ - Change in cash and cash equivalents (185) 308 Cash and cash equivalents, January 1 605 637 ------ ------ Cash and cash equivalents, September 30 $ 420 $ 945 ------ ------

SEMPRA ENERGY AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
Dollars in millions

	Nine Months Ended September 30,	
	2002	2001
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 210	$ 246
Income tax payments -- net	$ 47	$ 45
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of subsidiaries:		
Assets acquired	$1,210	$ --
Cash paid for capital stock	(199)	--
Liabilities assumed	$1,011	$ --

See notes to Consolidated

~~Financial Statements.~~

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

This Quarterly Report on Form 10-Q is that of Sempra Energy (the company), a California-based Fortune 500 holding company. Sempra Energy's subsidiaries include San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas) (collectively referred to as the California utilities), Sempra Energy Trading (SET), Sempra Energy Resources (SER), Sempra Energy International (SEI), Sempra Energy Solutions (SES) and Sempra Energy Financial (SEF). The financial statements herein are the Consolidated Financial Statements of Sempra Energy and its consolidated subsidiaries.

The accompanying Consolidated Financial Statements have been prepared 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. Certain changes in classification have been made to prior presentations to conform to the current financial statement presentation.

Information in this Quarterly Report is unaudited and should be read in conjunction with the company's Annual Report on Form 10-K for the year ended December 31, 2001 (Annual Report) and Quarterly Reports on Form 10-Q for the three months ended March 31, 2002 and the three months ended June 30, 2002.

The company's significant accounting policies are described in Note 2 of the notes to Consolidated Financial Statements in the company's Annual Report. The same accounting policies are followed for interim reporting purposes.

As described in the notes to Consolidated Financial Statements in the company's Annual Report, the California utilities account for the economic effects of regulation on utility operations (excluding generation operations) in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71).

EARNINGS PER SHARE

Diluted net income per share of common stock is less than basic net income per share of common stock due solely to the dilutive effect of in-the-money common stock options.

BOND OFFERING

In October 2002, SoCalGas publicly offered and sold $250 million of 4.80-percent First Mortgage Bonds, maturing on October 1, 2012. The bonds are not subject to a sinking fund and are not redeemable prior to maturity except through a make-whole mechanism. Proceeds from the bond sale have become part of the company's general treasury funds to replenish amounts previously expended to refund and retire indebtedness and will be used for working capital and other general corporate purposes. These bonds were assigned ratings of A+ by the Standard & Poor's rating agency, A1 by Moody's Investors Service, Inc., and AA by Fitch, Inc.

EQUITY UNITS

During the second quarter of 2002, the company sold $600 million of "Equity Units." Each unit consists of $25 principal amount of the company's 5.60% senior notes due May 17, 2007 and a contract to purchase for $25 on May 17, 2005, between .8190 and .9992 of a share of the company's common stock (to be determined by the then-prevailing market prices). The net proceeds of the sale were used primarily to repay a portion of the company's short-term debt, including debt used to finance the capital expenditure program for Sempra Energy Global Enterprises, the holding company for most of the company's principal subsidiaries other than the California utilities. The Equity Units are recorded as

long-term debt in the Consolidated Balance Sheets.

NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board (FASB) issued two statements, SFAS 142 "Goodwill and Other Intangible Assets" and SFAS 143 "Accounting for Asset Retirement Obligations."

SFAS 142 provides guidance on how to account for goodwill and other intangible assets after an acquisition is complete, and is effective for fiscal years that start after December 15, 2001. SFAS 142 calls for amortization of goodwill to cease and requires goodwill and certain other intangibles to be tested for impairment at least annually. Amortization of goodwill, including the company's share of amounts recorded by unconsolidated subsidiaries, was $7 million and $18 million for the three and nine months ended September 30, 2001, respectively. In accordance with the transitional guidance of SFAS 142, recorded goodwill attributable to the company was tested for impairment by comparing the fair value to its carrying value. Fair value was determined using a discounted cash flow methodology. As a result, during the first quarter of 2002, SEI recorded a pre-tax charge of $6 million related to the impairment of goodwill associated with its two domestic subsidiaries. Impairment losses are reflected in other operating expenses in the Statements of Consolidated Income.

Had the company been accounting for its goodwill under SFAS 142 for all periods presented, the company's net income and earnings per share would have been as follows (dollars in millions, except for per share amounts):

	Three Months Ended September 30,	
	2002	2001
Reported net income	$ 150	$ 96
Add: goodwill amortization, net of tax		4
Pro forma adjusted net income	$ 150	$ 100
Reported basic earnings per share	$0.73	$0.47
Add: goodwill amortization, net of tax		.02
Pro forma adjusted basic earnings per share	$0.73	$0.49
Reported diluted earnings per share	$0.73	$0.46
Add: goodwill amortization, net of tax		.02
Pro forma adjusted diluted earnings per share	$0.73	$0.48

	Nine Months Ended September 30,	
	2002	2001
Reported net income	$ 443	$ 410
Add: goodwill amortization, net of tax		11
Pro forma adjusted net income	$ 443	$ 421
Reported basic earnings per share	$2.16	$2.02
Add: goodwill amortization, net of tax		.05
Pro forma adjusted basic earnings per share	$2.16	$2.07

Reported diluted earnings per share	$2.15	$2.00
Add: goodwill amortization, net of tax		.05
Pro forma adjusted diluted earnings per share	$2.15	$2.05

Included in the Consolidated Balance Sheets at September 30, 2002 and December 31, 2001 were $181 million and $173 million, respectively, of unamortized goodwill related to consolidated subsidiaries, primarily SET (included in sundry assets) and $331 million and $319 million, before foreign currency translation adjustments ($222 million and $248 million, including foreign currency translation adjustments) respectively, of unamortized goodwill related to unconsolidated subsidiaries, primarily those located in South America (included in investments). Unamortized other intangible assets were not material at September 30, 2002 and December 31, 2001.

SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets and requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity increases the carrying amount of the related long-lived asset to reflect the future retirement cost. Over time, the liability is accreted to its present value and paid. The capitalized cost is depreciated over the useful life of the related asset. SFAS 143 is effective for the company beginning in 2003.

Upon adoption of SFAS 143, the company estimates that it would record an addition of $100 million to utility plant representing the company's share of the San Onofre Nuclear Generating Station (SONGS) estimated future decommissioning costs (as discounted to the present value at the date the various units began operation), and a corresponding retirement obligation liability of $350 million (which includes accretion of that discounted value to December 31, 2002). The nuclear decommissioning trusts' balance of $498 million at September 30, 2002 represents amounts collected for future decommissioning costs and earnings thereon, and has a corresponding offset in accumulated depreciation ($356 million related to SONGS Units 2 and 3) and deferred credits ($142 million related to SONGS Unit 1). That total amount would be reduced by $450 million, based on the $100 million depreciable base. The difference between the various amounts will be recorded as a regulatory liability of $200 million to reflect that SDG&E has collected the funds more quickly than SFAS 143 would accrete the retirement liability and depreciate the asset. Except for SONGS, the company has not yet determined the effect of SFAS 143 on its financial statements.

In August 2001, the FASB issued SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" that replaces SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 144 governs the determination of whether the carrying value of certain assets, primarily property, plant and equipment, should be reduced. SFAS 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections", was issued in April 2002 and will be effective for the company on January 1, 2003. In June, 2002, the FASB issued SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities" which nullifies EITF Issue 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," and is effective for exit or disposal activities that are initiated after December 31, 2002. Adoption of these statements will not have a material impact on the company's financial statements.

In June 2002, a consensus was reached in Emerging Issues Task Force (EITF) Issue 02-3 "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities," which codifies and reconciles existing guidance on the recognition and reporting of gains and losses on energy trading contracts and addresses other aspects of the accounting for contracts involved in energy trading and risk management activities. Among other things, the consensus requires that mark-to-market gains and losses on energy trading contracts should be shown net in the income statement, effective for financial statements issued for periods ending after July 15, 2002. This required that SES change its method of recording trading activities from gross to net. All other Sempra Energy subsidiaries were already recording trading

activities net and required no change. The required reclassifications will have no impact on previously recorded gross margin, net income, or cash provided by operating activities.

In October 2002, the EITF reached a consensus to rescind Issue 98-10, the basis for mark-to-market accounting used for recording energy-trading activities by many companies, including SET and SES. The new ruling requires that all new energy-related contracts entered into subsequent to October 25, 2002 should not be accounted pursuant to Issue 98-10. Instead, those contracts should be accounted for under accrual accounting and would not qualify for mark-to-market accounting unless the contracts meet the requirements stated under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities." The effective date for the full rescission of Issue 98-10 will be for fiscal periods beginning after December 15, 2002. The effect of rescinding Issue 98-10 will be reported as a cumulative effect of a change in accounting principle in accordance with Accounting Principles Board Opinion 20 on January 1, 2003. The company has not yet determined the impact of this change on the Consolidated Financial Statements, but preliminarily believes that the majority of the revenue recorded under mark-to-market accounting based on EITF 98-10 will still be recorded under mark-to-market accounting based on SFAS 133.

2. MATERIAL CONTINGENCIES

ELECTRIC INDUSTRY RESTRUCTURING

The restructuring of California's electric utility industry has significantly affected the company's electric utility operations. The background of this issue is described in the company's Annual Report. Subsequent developments are described herein.

SDG&E's AB 265 undercollection balance has been reduced from $392 million at December 31, 2001, to $270 million at September 30, 2002. SDG&E has filed an application with the California Public Utilities Commission (CPUC) for a rate surcharge to expedite recovery of this undercollection. However, even at current rates and allocation of those rates between the California Department of Water Resources (DWR) and SDG&E, the balance is expected to be completely recovered by mid 2005. Also at issue is the ownership of certain power sale profits. As previously discussed in Note 14 of the notes to Consolidated Financial Statements in the Annual Report, the CPUC rejected portions of a memorandum of understanding with respect to a settlement of regulatory issues related to electricity contracts held by SDG&E. A proposed settlement would have granted SDG&E ownership of its power sale profits in exchange for crediting $219 million to customers to offset a portion of the rate-ceiling balancing account. Instead, the CPUC asserted that all the profits associated with the contracts (which the CPUC estimated to be $363 million) should accrue to the benefit of customers. The company believes the CPUC's calculation of these profits is incorrect. Moreover, the company believes that all profits associated with the contracts properly are for the benefit of SDG&E shareholders rather than customers. Accordingly, SDG&E has challenged the CPUC's disallowance of profits from the contracts in both the California Court of Appeals and in Federal District Court.

These court proceedings have been held in abeyance pending the CPUC's consideration of another proposed settlement, which was negotiated with the CPUC legal division in June 2002. The settlement, if approved by the CPUC, would dispose of all issues relating to the contracts by allocating an additional $24 million of power sale profits to customers by a reduction of the rate-ceiling balancing account. The settlement, if approved, would not adversely affect SDG&E's financial position, liquidity or results of operations. A proposed CPUC decision issued in September 2002 would reject the settlement, deny SDG&E's request for a surcharge, and require SDG&E to reduce its AB 265 undercollection by $130 million to reflect profits from the intermediate-term contracts from June 2000 through January 2001. An alternate proposed decision issued in October 2002 would essentially adopt the June 2002 settlement. Final resolution of this matter is expected by the end of 2002. If the settlement is not approved, SDG&E intends to proceed with its previously instituted litigation seeking the allocation of all power sale profits to shareholders.

On March 21, 2002, the CPUC affirmed its decision prohibiting new direct access (DA) contracts after September 20, 2001, but rejected a proposal to make the prohibition retroactive to July 1, 2001. Contracts in place as of September 20, 2001 may be renewed or assigned to new parties. On November 7, 2002, the CPUC issued a decision adopting DA exit fees with a cap of 2.7 cents per kWh. This decision will have no effect on SDG&E's cash flows or results of operations because any shortfall due to the cap

on the exit fees will be funded by bundled customers in current rates.

On April 4, 2002, the CPUC approved a plan that determines how much ratepayer revenue the state's investor-owned utilities (IOUs) can collect in 2002 for utility-retained generation. SDG&E continues to collect the system average rate of 7.96 cents/kWh for commodity costs (the 6.5-cent commodity rate ceiling, plus an amount sufficient to repay the DWR for its purchases of power for utility customers). SDG&E also collects a 0.7-cent/kWh competition transition charge (CTC). The excess, if any, of the system average rate and CTC rate over actual costs is used to reduce the AB 265 undercollection balance described above.

Operating costs of SONGS Units 2 and 3, including nuclear fuel and related financing costs, and incremental capital expenditures are recovered through a performance incentive pricing plan (ICIP) which allows SDG&E to receive approximately 4.4 cents per kilowatt-hour for SONGS generation. Any differences between these costs and the incentive price affect net income and, for the nine-month period ended September 30, 2002, ICIP contributed $37 million to SDG&E's net income. The CPUC has rejected an administrative law judge's proposed decision to end ICIP prior to its December 31, 2003 scheduled expiration date. However, the CPUC has also denied the previously approved market-based pricing for SONGS beginning in 2004 and instead provided for traditional rate-making treatment under which the SONGS ratebase would begin at zero, essentially eliminating earnings from SONGS until ratebase grows. SDG&E has applied for a rehearing of this decision as contrary to market-based pricing contemplated by the overall SONGS ratemaking mechanism adopted by the CPUC in establishing ICIP in 1996. If SDG&E were to be granted market-based rates, SDG&E believes the impact of the end of ICIP would be somewhat reduced.

Since early 2001, the DWR has procured power for each of the California IOUs and the CPUC has established the allocation of the power and the related cost responsibility among the IOUs for that power. SDG&E's allocation results in its overall rates being comparable to those of the other two California electric IOUs, Southern California Edison (Edison) and Pacific Gas and Electric (PG&E).

The CPUC intends for the utilities to take the procurement function back from DWR by the beginning of 2003. On September 19, 2002, the CPUC issued a decision on how the power from the long-term contracts signed by DWR should be allocated to the customers of each of the utilities for purposes of determining the amount of additional power each utility will be required to procure in 2003 and thereafter to fill out its resource needs. The reasonableness of the IOUs' administration and dispatch of the allocated contracts will be reviewed by the CPUC in an annual proceeding. Assembly Bill 57 (AB 57), signed by California Governor Davis on September 24, 2002, requires the CPUC to make this determination, and to establish procedures that will allow utilities to recover their electric procurement costs in a timely fashion without the need for retrospective reasonableness reviews. SDG&E believes that a return to the procurement function in accordance with AB 57 would have no adverse impact on its financial position or results of operations.

On August 22, 2002, the CPUC issued a decision authorizing California's IOUs to begin buying power to cover their net short energy requirements starting on January 1, 2003. The net short is the difference between the amount of electricity needed to cover a utility's customer demand and the power provided by owned generation and existing contracts, including the long-term power contracts allocated to the customers of each IOU by the DWR (see above). The IOUs are authorized to enter into contracts of up to five years for power from traditional sources, and up to 15 years for power from renewable sources. Based upon the DWR's allocation, SDG&E will be required to purchase approximately 10 percent of its customer requirements in 2003.

On October 24, 2002, the CPUC issued a decision in the Electric Procurement proceeding that directs the resumption of the electric commodity procurement function by IOUs by January 1, 2003, and begins the implementation of recent legislation regarding procurement and renewables portfolio standard addressed in AB 57 and SB 1078. The decision establishes a process for review and approval of the utilities' updated 2003 procurement plans before January 1, 2003, and long-term (20-year) procurement plans during 2003. The CPUC has authorized the utilities to use derivatives to manage procurement risk and to acquire a variety of resource types including utility ownership, conventional generation, distributed generation, self generation, demand side resources, transmission and renewables. A renewables portfolio standard is adopted, requiring an additional one percent of energy sales each year to be supplied by renewable sources. A semiannual cost review and rate revision mechanism is established, and a trigger is established for

more frequent changes if balances exceed four percent of annual, non-DWR generation revenues, to provide for timely recovery of any undercollections. The decision expresses interest in an approach to an incentive mechanism that rewards or penalizes utilities relative to their performance against a benchmark.

The CPUC has placed a moratorium on the IOUs' purchasing electricity from their affiliates for either two years or until the CPUC completes a rulemaking on this matter.

The State of California has commenced the sale of $11.95 billion in revenue bonds, the proceeds of which are needed to repay monies the state borrowed from its general fund and other short-term lenders to purchase electricity for its residents during the energy crisis of 2001 and 2002. The bonds include a variety of variable-rate and fixed-rate instruments with maturity dates of up to 20 years. Sale of the bonds is expected to close in November 2002. A CPUC decision issued in October 2002 implements a separate bond charge to be passed on to the IOUs' customers. Due to SDG&E's billable rates being limited by the CPUC, the decision potentially could result in a revenue shortfall that would be recorded in a balancing account until disposition in the DWR Revenue Requirements Phase of this proceeding.

GAS INDUSTRY RESTRUCTURING

As discussed in Note 15 of the notes to Consolidated Financial Statements in the Annual Report, in December 2001 the CPUC issued a decision related to gas industry restructuring, with implementation anticipated during 2002. However, implementation has been delayed and the CPUC has ordered additional hearings.

CPUC INVESTIGATION OF ENERGY-UTILITY HOLDING COMPANIES

In January 2002, the CPUC issued a decision that broadly determined that a holding company would be required to provide cash to a utility subsidiary to cover its operating expenses and working capital to the extent they are not adequately funded through retail rates. Also in January 2002, the CPUC ruled that it had jurisdiction to create the holding company system and, therefore, retains jurisdiction to enforce conditions to which the holding companies had agreed. The company filed a request for rehearing on the issues, which the CPUC denied on July 17, 2002. The company is seeking judicial review of the orders in the California Court of Appeals. The company filed its appeal on August 19, 2002.

NUCLEAR INSURANCE

SDG&E and the other co-owners of SONGS have purchased primary insurance of $200 million, the maximum amount available, for public-liability claims. An additional $9.25 billion of coverage is provided by secondary financial protection required by the Nuclear Regulatory Commission and provides for loss sharing among utilities owning nuclear reactors if a costly accident occurs. SDG&E and the other co-owners of SONGS could be assessed retrospective premium adjustments of up to $176 million (SDG&E's share is $36 million unless default occurs by any other co-owner) in the event of a nuclear incident involving any of the licensed, commercial reactors in the United States, if the amount of the loss exceeds $200 million. In the event the public-liability limit stated above is insufficient, the Price-Anderson Act provides for Congress to enact further revenue-raising measures to pay claims, which could include an additional assessment on all licensed reactor operators.

Insurance coverage is provided for up to $2.75 billion of property damage and decontamination liability. This coverage also provides indemnity payments of $3.5 million per week, for up to 52 weeks, and then $2.8 million per week, for up to 110 weeks, for the cost of replacement power. There is a waiting period of 12 weeks. Coverage is provided through a mutual insurance company owned by utilities with nuclear facilities. If losses at any of the nuclear facilities covered by the risk-sharing arrangements were to exceed the accumulated funds available from these insurance programs, SDG&E could be assessed retrospective premium adjustments of up to $7.4 million.

Both the public-liability and property insurance include coverage for SDG&E's and the other co-owners' losses resulting from acts of terrorism.

LITIGATION

SER is a defendant in an action brought by the CPUC and the California Electricity Oversight Board at the Federal Energy Regulatory Commission

(FERC) alleging that, because of the dysfunctional energy market in California, the long-term power contracts entered into by the DWR should be revised or set aside as being unjust and unreasonable. On April 24, 2002, the FERC ordered hearings on the complaints. The order requires the complainants to satisfy a "heavy" burden of proof to support a revision of the contracts, and cited the FERC's long-standing policy to recognize the sanctity of contracts, from which it has deviated only in "extreme circumstances." Hearings will begin in December 2002 under the supervision of a FERC administrative law judge (ALJ). Settlement negotiations are continuing. A decision from the ALJ is expected in February 2003. The FERC expects to issue a final decision by May 2003. Additional information regarding the contract between SER and the DWR is included under "Sempra Energy Resources" in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Lawsuits filed in 2000 and currently consolidated in San Diego Superior Court seek class-action certification and damages, alleging that Sempra Energy, SoCalGas and SDG&E, along with El Paso Energy Corp. and several of its affiliates, sought to maintain their positions in the natural gas market by agreeing, among other things, to restrict the supply of natural gas into Southern California. On October 16, 2002, the assigned San Diego Superior Court judge ruled that the case can proceed with discovery and that the California courts, rather than the FERC, have jurisdiction in the case. This was a preliminary ruling and not a ruling on the merits or facts of the case. The northern California cases which only name El Paso as a defendant are scheduled for trial in September 2003 and the remainder of the cases are set for trial in January 2004. According to published reports, the Nevada Attorney General filed a similar lawsuit in Nevada in November 2002.

Various 2000 lawsuits, which seek class-action certification, allege that certain company subsidiaries unlawfully manipulated the electric-energy market. These lawsuits were consolidated in San Diego Superior Court, by order of the Judicial Council, but have recently been removed to Federal Court where motions to remand are pending. Similar, subsequent lawsuits are expected to be consolidated with the existing matters in San Diego.

SER is a defendant in an action brought by Occidental Energy Ventures (Occidental) with respect to the Elk Hills power project being jointly developed by the two companies. Occidental alleges that SER breached the joint venture agreement by not providing that Occidental would be a party to the contract with the DWR or receiving its share of the proceeds from providing power to the DWR under the contract from Elk Hills. The court has ordered that the agreement requires the matter be arbitrated in accordance with the agreement.

SER, SET and SDG&E, along with all other sellers in the western power market, have been named defendants in a complaint filed at the FERC by the California Attorney General's office seeking refunds for electricity purchases based on alleged violations of FERC tariffs. The FERC has dismissed the complaint. The California Attorney General's office requested a rehearing, which the FERC denied. The California Attorney General has filed an appeal in the 9th Circuit.

Management believes the above allegations are without merit.

In connection with its investigation into California energy prices, in May 2002 the FERC ordered all energy companies engaged in electric energy trading activities to state whether they had engaged in "death star," "load shift," "wheel out," "ricochet," "inc-ing load" and various other specific trading activities as described in memos prepared by attorneys retained by Enron Corporation and in which it was asserted that Enron was manipulating or "gaming" the California energy markets. In response to the inquiry, Sempra Energy's electricity trading subsidiaries have denied using any of these strategies. SDG&E did disclose and explain a single de minimus 100-MW transaction for the export of electricity out of California. In response to a related FERC inquiry regarding natural gas trading, SDG&E and SoCalGas have also denied engaging in "wash" or "round trip" trading activities. The companies are also cooperating with the FERC and other governmental agencies and officials in their various investigations of the California energy markets.

In October 2002, the FERC also requested the largest North American natural gas marketers in 2001 to submit information regarding natural gas trading data provided by these marketers to energy trade publications in 2000 and 2001. During this period individual employees at SET received unsolicited information requests from trade publications, many of which were telephone inquiries seeking an immediate telephonic response. SET has advised the FERC that, out of

several hundred communications during the relevant period, prices were inaccurately reported by perhaps $.01 to $.02 per mmbtu on a handful of occasions involving an area in the Rocky Mountain region. No records of these telephone conversations exist. SET has also advised the FERC that it has found no instances involving inaccurate written information provided by SET to trade publications.

On May 28, 2002, SER filed a complaint for declaratory judgment in San Diego Superior Court regarding its contract with the DWR. In addition to other relief, SER is seeking a binding declaration from the court that, contrary to DWR's stated position, SER is meeting the terms of the agreement and that DWR is obligated to take delivery of and pay for wholesale electric power, as provided for under the agreement. In response to SER's complaint for a declaratory judgment, on July 2, 2002, the DWR filed a cross-complaint against SER, seeking to void the 10-year energy-supply contract by alleging that SER misrepresented its intentions regarding the Elk Hills Power Plant as well as the other plants currently under construction. The DWR continues to accept all scheduled power from SER and has made all payments for such power. The construction of the Elk Hills Power Plant is on schedule to begin operating in the spring of 2003. See further discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under "Sempra Energy Resources."

SET is a defendant in the action at the FERC concerning rates charged certain utilities by sellers of electricity. Management cannot predict the outcome of this matter.

At September 30, 2002, SET remains due approximately $100 million from energy sales made in 2000 and 2001 through the California Independent System Operator and the California Power Exchange markets. The collection of these receivables depends on satisfactory resolution of the financial difficulties being experienced by other California IOUs as a result of the California electric industry crisis. SET has submitted relevant claims in the Pacific Gas and Electric and in the California Power Exchange bankruptcy proceedings. The company believes adequate reserves have been recorded.

Except for the matters referred to above, 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. Management believes that these matters will not have a material adverse effect on the company's financial condition or results of operations.

ARGENTINE INVESTMENTS

SEI has a $300 million investment in Argentina through its ownership of approximately 40 percent of two natural gas operating utilities. As a result of the decline in the value of the Argentine peso, SEI has reduced the carrying value of its investment to $50 million by reducing shareholders' equity by $250 million, which is included in accumulated other comprehensive income (loss). These non-cash adjustments, which began at the end of 2001 and are continuing, did not affect net income, but did reduce comprehensive income and increase accumulated other comprehensive income (loss).

The related Argentine economic decline and government responses (including Argentina's unilateral, retroactive abrogation of utility agreements earlier this year) are continuing to adversely affect the operations of SEI's two unconsolidated Argentine utilities. On September 5, 2002, SEI filed for international arbitration under the 1994 Bilateral Investment Treaty between the United States and Argentina for recovery of the diminution of the value of its investments resulting from the government actions. SEI expects the International Center for Settlement of Investment Disputes to recognize the filing and set the matter for arbitration within two months, but resolution is expected to take more than a year. Sempra Energy also has political-risk insurance that could recover a portion of the diminution. If it were to become probable that SEI would not recover at least the difference between its pre-currency-adjustment carrying value of these investments over their diminished value, SEI would at that time record a non-recurring charge against net income equal to the shortfall. However, the effect on shareholders' equity of any such charge would be reduced or eliminated to the extent of the currency adjustments relating to SEI's Argentine investments previously recorded in other comprehensive income.

QUASI-REORGANIZATION

In 1993, PE divested its merchandising operations and most of its oil and gas exploration and production business. In connection with the

divestitures, PE effected a quasi-reorganization for financial reporting purposes effective December 31, 1992. Management believes the remaining balances of the liabilities established in connection with the quasi-reorganization are adequate.

3. COMPREHENSIVE INCOME

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

(Dollars in millions)	Three Months Ended September 30, 2002	2001	Nine Months Ended September 30, 2002	2001
Net income	$ 150	$ 96	$ 443	$ 410
Foreign currency adjustments	(54)	(15)	(182)	(28)
Minimum pension liability adjustments	--	--	(14)	(8)
Market-value adjustments of financial instruments (Note 5)	--	2	--	1
Comprehensive income	$ 96	$ 83	$ 247	$ 375

4. SEGMENT INFORMATION

The company is a holding company, whose subsidiaries are primarily engaged in the energy business. It has four separately managed reportable segments comprised of SoCalGas, SDG&E, SET and SER. During the third quarter of 2002, SER met the requirements for disclosure as a reportable segment for the first time. The two utilities operate in essentially separate service territories under separate regulatory frameworks and rate structures set by the CPUC. As described in the notes to Consolidated Financial Statements in the company's Annual Report, SDG&E provides electric service to San Diego and southern Orange counties and natural gas service to San Diego county. SoCalGas is a natural gas distribution utility, serving customers throughout most of southern California and part of central California. SET, based in Stamford, Connecticut, is a wholesale trader of physical and financial products, including natural gas, electricity, petroleum, petroleum products and other commodities, and a trader and wholesaler of metals, serving a broad range of customers in the United States, Canada, Europe and Asia. SER develops, owns and operates power plants and natural gas storage, production and transportation facilities within the western United States and Baja California, Mexico.

The accounting policies of the segments are the same as those described in the notes to Consolidated Financial Statements in the company's Annual Report, and segment performance is evaluated by management based on reported net income. Utility transactions are primarily based on rates set by the CPUC and the FERC.

(Dollars in millions)	Three Months Ended September 30, 2002	2001	Nine Months Ended September 30, 2002	2001
Operating Revenues:				
Southern California Gas	$ 597	$ 561	$1,999	$3,036
San Diego Gas & Electric	420	333	1,254	1,973
Sempra Energy Trading	178	224	582	915
Sempra Energy Resources	136	102	275	135
Intersegment revenues	(7)	(5)	(17)	(18)
Other	60	202	245	390
Total	$ 1,384	$1,417	$4,338	$6,431
Net Income:				
Southern California Gas*	$ 56	$ 57	$ 167	$ 156
San Diego Gas & Electric*	46	43	150	132
Sempra Energy Trading	10	31	73	186
Sempra Energy Resources	29	(9)	60	(14)

Other	9	(26)	(7)	(50)
Total	$ 150	$ 96	$ 443	$ 410

* after preferred dividends

	Balance at	
	September 30, 2002	December 31, 2001
Assets:		
Southern California Gas	$ 3,815	$ 3,762
San Diego Gas & Electric	5,646	5,444
Sempra Energy Trading	5,264	2,997
Sempra Energy Resources	1,080	577
Other	2,538	3,248
Intersegment receivables	(1,170)	(872)
Total	$17,173	$15,156

5. FINANCIAL INSTRUMENTS

Note 10 of the notes to Consolidated Financial Statements in the company's Annual Report discusses the company's financial instruments, including the adoption of SFAS 133 and SFAS 138, accounting for derivative instruments and hedging activities, market risk, interest-rate risk management, energy derivatives and contracts, and fair value. Additional activity and information since January 1, 2002 related to financial instruments are described herein.

At September 30, 2002, $3 million in current assets, $33 million in investments and other assets, $134 million in current liabilities and $912 million in deferred credits and other liabilities were recorded in the Consolidated Balance Sheets for fixed-priced contracts and other derivatives. Regulatory assets and liabilities were established to the extent that derivative gains and losses are recoverable or payable through future rates. As such, $133 million in current regulatory assets, $912 million in noncurrent regulatory assets and $1 million in current regulatory liabilities were recorded in the Consolidated Balance Sheets as of September 30, 2002.

For the nine months ended September 30, $2 million of losses in 2002 and $3 million of income in 2001 were recorded in natural gas operating revenues and $1 million of income in 2002 and $2 million of losses in 2001 were recorded in other income in the Statements of Consolidated Income. Additionally, market value adjustments of $11 and $22 million were made at September 30, 2002 and December 31, 2001, respectively, to long-term debt relating to two fixed-to-floating interest rate swap agreements. The market value adjustment in 2002 included a reversing effect for the cancellation of one of the swap agreements on September 30, 2002.

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" contained in the company's Annual Report.

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," "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 CPUC, the California Legislature, the DWR, and the FERC; capital market conditions, inflation rates, interest rates and exchange rates; energy and trading markets, including the timing and extent of changes in commodity prices; weather conditions and conservation efforts; war and terrorist attacks; business, regulatory and legal decisions; the pace of deregulation of retail natural gas and electricity delivery; the timing and success of business development efforts; 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.

See also "Factors Influencing Future Performance" below.

CAPITAL RESOURCES AND LIQUIDITY

The company's California utility operations are a major source of liquidity. During the period beginning in the third quarter of 2000 and continuing into the first quarter of 2001, SDG&E's liquidity and its ability to make funds available to Sempra Energy were adversely affected by the electric cost undercollections resulting from a temporary ceiling on electric rates legislatively imposed in response to high electric commodity costs. Growth in these undercollections has ceased as a result of an agreement with the DWR, under which the DWR is obligated to purchase SDG&E's full net short position consisting of the power and ancillary services required by SDG&E's customers that are not provided by SDG&E's nuclear generating facilities or its previously existing purchase power contracts. The agreement with the DWR extends through December 31, 2002. The CPUC is conducting proceedings intended to establish guidelines and procedures for the resumption of electricity procurement by SDG&E and the other California IOUs and in October 2002 issued a decision directing the resumption of the electric commodity procurement function by the IOUs by January 1, 2003. In addition, AB 57 and implementing decisions by the CPUC provide for periodic adjustments to rates that would reflect the costs of power and are intended to ensure that undercollections for the commodity cannot exceed four percent of the annual non-DWR generation revenues. See further discussion in the company's Annual Report and the discussion of AB 57 in Note 2 of the notes to Consolidated Financial Statements.

SET provides cash to or requires cash from Sempra Energy as the level of its net trading assets fluctuates with prices, volumes, margin requirements (which are substantially affected by credit ratings (see below) and price fluctuations) and the length of its various trading positions. Its status as a source or use of Sempra Energy cash also depends on its level of borrowing from its own sources.

CASH FLOWS FROM OPERATING ACTIVITIES

For the nine-month period ended September 30, 2002, the increase in cash flows from operations compared to the corresponding period in 2001 was attributable to the continuing decrease in SDG&E's undercollection of purchased-power costs (the balance of which decreased to $392 million at December 31, 2001 and $270 million at September 30, 2002 from a high in mid-2001 of $750 million), the decrease in prior year overcollected regulatory balancing accounts at SoCalGas as a result of actual cost of gas being higher than amounts collected in rates during 2001, the decrease in trade accounts payable due to lower gas prices in 2001 compared to 2000 and the DWR's purchasing SDG&E's net short position beginning in 2001, and the net impact of trading activities. These factors were partially offset by decreases in trade accounts receivable and current taxes receivable.

CASH FLOWS FROM INVESTING ACTIVITIES

For the nine-month period ended September 30, 2002, the decrease in cash flows from investing activities compared to the corresponding period in 2001 was primarily due to various acquisitions in 2002 to expand trading operations, increased capital expenditures and, as reflected in "other-net" on the Condensed Statements of Consolidated Cash Flows, required investments used to secure project funding made under a synthetic leasing agreement.

The 2002 capital expenditures include SER's costs related primarily to the 1,200-megawatt Mesquite Power Plant near Phoenix, Arizona (expected to commence commercial operations at 50-percent capacity in June 2003 and at full capacity in December 2003); the 600-megawatt Termoelectrica de Mexicali power plant near Mexicali, Mexico (commercial operation is scheduled for summer 2003); and other possible power plants being considered for development.

Capital expenditures for property, plant and equipment by the California utilities are estimated to be $700 million for the full year 2002 and are being financed primarily by internally generated funds and security issuances. Construction, investment and financing programs are continuously reviewed and revised in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements. Capital expenditures for property, plant and equipment by the company's other business are estimated to be $1 billion for the full year 2002, of which $760 million is attributable to SER, including amounts under SER's synthetic lease agreement and the investment in Twin Oaks Power (described below).

The expansion of SoCalGas' pipeline capacity to meet increased demand by electric generators and commercial and industrial customers, which increased its capital expenditures in early 2002 and in 2001 and 2000, have been completed.

In October 2001, CMS Energy and Sempra Energy announced an agreement to develop jointly a major new liquefied natural gas (LNG) receiving terminal to bring natural gas supplies into northwestern Mexico and southern California. The plant will be located on the Pacific Coast, north of Ensenada, Baja California, Mexico. Sempra Energy has purchased a 300-acre site for the terminal for a purchase price of $19.7 million. As currently planned, the plant would have a send-out capacity of approximately 1 billion cubic feet per day of natural gas through a new 40-mile pipeline between the terminal and existing pipelines in the San Diego/Baja California border area. Subsequently, CMS Energy has adjusted its role in the development of the terminal since CMS Energy's business strategy is now to reduce debt and improve its balance sheet, which will require restraint in its capital spending. As a result, CMS Energy will not be an equity partner in the project, but has retained an option to participate as an equity partner in the project at a later date. It is still expected to participate as the LNG plant operator and will also provide technical support during the development of the project, which is currently estimated to commence commercial operations in 2007.

On October 31, 2002, SER completed its previously announced acquisition of a 305-megawatt, coal-fired power plant (to be renamed Twin Oaks Power) from Texas-New Mexico Power Company for $120 million. SER has a five-year contract to sell substantially all of the output of the plant and an 18-year coal supply contract.

Earlier this year, SET completed three acquisitions that add base metals trading and warehousing to its trading business. On February 4, 2002, SET completed the acquisition of London-based Sempra Metals Limited (formerly Enron Metals Limited), a leading metals trader on the London Metals Exchange, for $145 million (subject to completion of an audit). On April 26, 2002, SET completed the acquisition of the metals concentrates business of New York-based Sempra Metals Concentrates (formerly a part of Enron Metals & Commodity Corp.), a leading global trader of copper, lead and zinc concentrates, for $24 million. Also in April 2002, SET completed the acquisition of the U.S. warehousing business of Henry Bath, Inc. and the European and Asian assets of the Liverpool, England-based Henry Bath Limited and subsidiaries, which provide warehousing services for non-ferrous metals in Europe and Asia, for a total of $30 million. These acquisitions are expected to contribute to Sempra Energy's earnings in 2002.

CASH FLOWS FROM FINANCING ACTIVITIES

For the nine-month period ended September 30, 2002, cash flows from financing activities decreased from the corresponding period in 2001 due primarily to the higher drawdowns of lines of credit in the 2001 period.

In October 2002, SoCalGas publicly offered and sold $250 million of 4.80-percent First Mortgage Bonds, maturing on October 1, 2012. The bonds are not subject to a sinking fund and are not redeemable prior to maturity except through a make-whole mechanism. Proceeds from the bond sale have become part of the company's general treasury funds to replenish amounts previously expended to refund and retire indebtedness and will be used for working capital and other general corporate purposes. These bonds were assigned ratings of A+ by the Standard &

Poor's rating agency, A1 by Moody's Investors Service, Inc., and AA by Fitch, Inc.

On September 30, 2002, SoCalGas cancelled a fixed-to-variable interest-rate swap on $175 million of first mortgage bonds. The $6 million gain on the transaction is recorded in "Deferred Credits and Other Liabilities" on the Consolidated Balance Sheet and will be amortized over the life of the bonds, which mature in 2025.

In August 2002, SoCalGas paid off $100 million of 6.875-percent first mortgage bonds at maturity. In June 2002, SDG&E paid off $28 million of 7.625-percent first mortgage bonds at maturity and, in July 2002, called $10 million of 8.5-percent first mortgage bonds.

On September 10, 2002, Sempra Energy Global Enterprises, the parent company for most of Sempra Energy's subsidiaries other than the California utilities, replaced its expiring $1.2 billion revolving line of credit with a $950 million syndicated credit agreement. The new revolving line of credit, which is also guaranteed by Sempra Energy, expires in September 2003, at which time outstanding borrowings may be converted to a one-year term loan. The agreement requires Sempra Energy to maintain a debt-to-total capitalization ratio (as defined in the agreement) of not to exceed 65 percent.

During the second quarter of 2002, the company sold $600 million in "Equity Units." Each unit consists of $25 principal amount of the company's 5.60% senior notes due May 17, 2007 and a contract to purchase for $25 on May 17, 2005, between .8190 and .9992 of a share of the company's common stock (to be determined by the then-prevailing market price). The net proceeds of the offering were used primarily to repay a portion of its short-term debt, including the repayment of $200 million borrowed by SER in April 2002 and other debt used to finance the capital expenditure program for Sempra Energy Global Enterprises.

In March 2000, the company's board of directors authorized the optional expenditure of up to $100 million to repurchase shares of common stock from time to time in the open market or in privately negotiated transactions. Through September 30, 2002, the company had acquired 896,800 shares under this authorization (162,400 in 2000, 60,000 in 2001 and 674,400 in the third quarter of 2002).

In May 2002, SDG&E and SoCalGas replaced their individual revolving lines of credit with a combined revolving credit agreement under which each utility may individually borrow up to $300 million, subject to a combined borrowing limit for both utilities of $500 million. Each utility's revolving credit line expires on May 16, 2003, at which time it may convert its then outstanding borrowings to a one-year term loan subject to having obtained any requisite regulatory approvals relating to long-term debt. Borrowings under the agreement, which are available for general corporate purposes including back-up support for commercial paper and variable-rate long-term debt, would bear interest at rates varying with market rates and the individual borrowing utility's credit rating. The agreement requires each utility individually to maintain a debt-to-total capitalization ratio (as defined in the agreement) of not to exceed 60 percent. The rights, obligations and covenants of each utility under the agreement are individual rather than joint with those of the other utility, and a default by one utility would not constitute a default by the other. These lines of credit were unused at September 30, 2002.

On September 30, 2002, Moody's Investors Service, Inc., reduced its ratings of the company's senior unsecured debt from A2 with a negative outlook to Baa1 with a stable outlook. The rating of SDG&E's senior secured debt was also reduced from Aa3 with a negative outlook to A1 with a stable outlook. In April 2002, Fitch, Inc. confirmed its prior credit ratings of the company's senior unsecured debt at A with a stable outlook as well as confirming its prior ratings of the company's other debt and that of its subsidiaries; Standard & Poor's reduced its ratings of the company's senior unsecured debt from A with a negative outlook to A- with a stable outlook, and made corresponding adjustments in the ratings and outlook of the company's other debt and that of its subsidiaries; and Moody's Investors Service, Inc., confirmed its prior ratings of the debt of SoCalGas and the short-term debt and variable rate demand bonds of SDG&E.

RESULTS OF OPERATIONS

Net income and net income per share increased for the nine-month period ended September 30, 2002, compared to the corresponding period in 2001, primarily due to improved results at the California utilities and at SER, lower interest expense, the 2001 one-time after-tax charge of $25

million for the surrender of a natural gas distribution franchise in Nova Scotia and the income-tax matters referred to below, partially offset by lower income in 2002 from SET as described below and the 2001 gain on sale of Energy America. Net income and net income per share increased for the three-month period ended September 30, 2002, compared to the corresponding period in 2001, primarily due to improved results at SDG&E and at SER and the one-time after-tax charge of $25 million described above, partially offset by reduced earnings at SET. The decreases in SET's earnings were primarily due to decreased volatility in energy commodity markets and decreased energy commodity prices during 2002.

The decreases in other operating revenues and other operating expenses for the three-month and nine-month periods ended September 30, 2002, compared to the corresponding periods in 2001, were primarily due to decreased volatility in energy commodity markets during 2002 at SET and decreased natural gas prices in Mexico for SEI, partially offset by SER's sales to the DWR that recommenced in April 2002 under its long-term contract. SER sold power to the DWR at a discounted rate in 2001. Other operating expenses for the nine-month period ended September 30, 2001 also included the gain on the sale of Energy America. In addition, other operating revenues and operating expenses for the three-month period decreased due to the deconsolidation of a small subsidiary earlier in 2002.

The decrease in interest expense for the three-month and nine-month periods ended September 30, 2002, compared to the corresponding period in 2001, was primarily due to a decrease in average outstanding debt, decreased interest rates in 2002 and the effects of interest-rate swaps.

Income tax expense decreased for the nine-month period ended September 30, 2002, compared to the corresponding period in 2001, primarily due to the favorable resolution of income-tax issues in the second quarter of 2002 and higher income tax expense recorded in the first quarter of 2001 related to the position of the Internal Revenue Service on a prior year's deduction. Income tax expense increased for the three-month period ended September 30, 2002, compared to the corresponding period in 2001, primarily due to the increased income noted above.

UTILITY OPERATIONS

The tables below summarize the natural gas and electric volumes and revenues by customer class for the nine-month periods ended September 30, 2002 and 2001.

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

	Gas Sales		Transportation & Exchange		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
~~2002:~~						
~~Residential~~	~~208~~	~~$1,461~~	~~2~~	~~$ 5~~	~~210~~	~~$1,466~~
~~Commercial and industrial~~	~~86~~	~~448~~	~~219~~	~~128~~		

~~305 576 Electric generation plants ----- 214 41 214 41 Wholesale ---- 11 4 11 4 ---------- ---------- ---------- ---------- ---------- 294 $1,909 446 $178 740 2,087 Balancing accounts and other 200 ---- ----- Total $2,287 ------ ---------- ---------- ---------- ---------- ---------- ---------- ---------- 2001: Residential 212 $2,263 2 $ 4 214 $2,267 Commercial and industrial 82 748 190 138 272 886 Electric generation plants ----- 375 91 375 91 Wholesale ---- 17 8 17 8 ---------- ---------- ---------- ---------- ---------- 294 $3,011 584 $241 878 3,252 Balancing accounts and other 346 ---- ----- Total $3,598 ------ ---------- ---------- ---------- ---------- ---------- ---------- ----------~~

The decrease in natural gas revenue is primarily due to lower natural gas prices and decreased transportation for electric generation plants and the loss of approximately 100 million cubic feet per day in load on the San Diego system when the Baja Norte pipeline began service in September 2002.

The decrease in the cost of natural gas distributed was primarily due to lower natural gas commodity prices. Under the current regulatory framework, changes in natural gas commodity prices do not affect net income since, as explained more fully in the company's Annual Report, current or future customer rates normally recover the actual commodity cost of natural gas on a substantially concurrent basis, subject to the mechanisms under performance-based ratemaking as explained in the Annual Report.

Electric Distribution and Transmission
(Volumes in millions of kWhrs, dollars in millions)

	2002		2001	
	Volumes	Revenue	Volumes	Revenue
Residential	4,673	$ 486	4,474	$ 606
Commercial	4,517	481	4,597	664
Industrial	1,393	121	2,282	342
Direct access	2,618	90	1,656	61
Street and highway lighting	66	7	65	8
Off-system sales	3	--	413	88
	13,270	1,185	13,487	1,769
Balancing accounts and other		(235)		(377)
Total	13,270	$ 950	13,487	$1,392

The decreases in electric revenues and in electric fuel and net purchased power expense for the nine-month period ended September 30, 2002, compared to the corresponding period in 2001, were primarily due to the effect of lower electric commodity costs, which are passed on to customers without markup, and the DWR's purchases of SDG&E's net short position beginning in February 2001. The increase in electric fuel and net purchased power expense for the three-month period ended September 30, 2002, compared to the corresponding period in 2001, was primarily attributable to the DWR's independent system operator real time market refund during the third quarter 2001. Under the current regulatory framework, changes in commodity costs normally do not affect net income, as explained in the Annual Report, subject to the mechanisms under performance-based ratemaking as explained in the Annual Report.

SEMPRA ENERGY TRADING

SET recorded net income of $73 million and $186 million for the nine-month periods ended September 30, 2002 and 2001, respectively, and net income of $10 million and $31 million for the three-month periods ended September 30, 2002 and 2001, respectively. The decrease in net income was primarily due to decreased volatility in energy commodity markets and decreased energy commodity prices during 2002.

For the nine-month period ended September 30, 2002, SET recorded net revenues of $582 million compared to $915 million for the corresponding period in 2001. SET's gross revenues were $23.9 billion and $26.7 billion for the nine-month periods ended September 30, 2002 and 2001, respectively. SET has historically recorded trading activities net, as now required of all trading companies, based on a consensus issued by the Emerging Issues Task Force in June 2002.

The following tables summarize SET's trading margin by geographical region and by product line for the nine-month periods ended September 30, 2002 and 2001.

Trading Margin (dollars in millions)	Nine Months Ended September 30 2002	2001
Geographical:		
North America	$ 226	$ 551
Europe/Asia	91	72
Total	$ 317	$ 623
Product Line:		
Gas	$ 149	$ 206
Power	68	287
Oil/Crude & Products	35	120
Other	65	10
Total	$ 317	$ 623

The estimated fair values for SET's trading activities as of September 30, 2002, and the periods during which unrealized revenues are expected to be realized, are (dollars in millions):

Fair Market Value at September 30 /--Scheduled Maturity (in months)--/ Source of fair value 2002	0-12	13-24	25-36	>36
~~Exchange prices~~	~~$ (96)~~	~~$ (71)~~	~~$ 3~~	~~$ (26)~~
~~Prices actively quoted~~	~~507~~	~~307~~	~~136~~	~~58~~
~~Prices provided by other external sources~~	~~8~~	~~(10)~~	~~-~~	~~-~~
~~Prices based on models and other valuation methods~~	~~28~~	~~4~~	~~7~~	~~2~~
~~Total~~	~~$ 447~~	~~$ 230~~	~~$ 146~~	~~$ 34~~
	~~100.0%~~	~~51.4%~~	~~32.7%~~	~~7.6%~~

~~15 $ 37~~

~~8.3%~~

The following table summarizes the counterparty credit quality for SET. These amounts are net of collateral in the form of customer margin and/or letters of credit.

(Dollars in millions)	September 30 2002	December 31 2001
Commodity Exchanges	$ 111	$ 133
Investment Grade*	1,156	1,211
Below Investment Grade*	414	335
Total	$1,681	$1,679

* As determined by rating agencies or internal models intended to approximate rating-agency determinations.

A summary of SET's unrealized revenues for trading activities for the

three-month and nine-month periods ending September 30, 2002 (in millions of dollars) follows:

	Three months Ended September 30, 2002	Nine months Ended September 30, 2002
Balance at beginning of period	$ 407	$ 405
Additions	169	355
Realized	(129)	(313)
Balance at September 30, 2002	$ 447	$ 447

See also the comment concerning the CPUC's prohibition of IOUs' procuring electricity from their affiliates in "Electric Industry Restructuring" in Note 2 of the notes to Consolidated Financial Statements.

SEMPRA ENERGY INTERNATIONAL

Results for SEI were net income of $30 million and $11 million for the nine-month periods ended September 30, 2002 and 2001, respectively, and net income of $13 million and a net loss of $7 million for the three-month periods ended September 30, 2002 and 2001, respectively. The increases in net income were primarily due to the 2001 one-time, after-tax charge of $25 million following the surrender of Sempra Atlantic Gas' natural gas distribution franchise in Nova Scotia, partially offset by reduced profitability from operations in the Argentine subsidiaries. A discussion of the Argentine economic issue is included in Note 2 of the notes to Consolidated Financial Statements.

The 215-mile North Baja natural gas pipeline constructed by SEI and partner PG&E Corporation, extending from Arizona to the Rosarito Pipeline south of Tijuana, is now operational and is expected to begin contributing to earnings in the fourth quarter of 2002.

SEMPRA ENERGY RESOURCES

Results for SER were net income of $60 million for the nine-month period ended September 30, 2002, compared with a net loss of $14 million for the corresponding period in 2001, and net income of $29 million and a net loss of $9 million for the three-month periods ended September 30, 2002 and 2001, respectively. The improvements were primarily due to sales to the DWR that commenced in April 2002 under its long-term contract. Losses in 2001 related to development costs of new generation projects and selling power to the DWR at below cost in June through September of 2001, under the long-term contract.

SER has an agreement with the DWR to supply the DWR with up to 1,900 megawatts of electricity over a ten-year period ending in September 2011. Sempra Energy's ability to increase its earnings is significantly dependent on results to be provided by the DWR agreement. As previously reported, the CPUC and the California Electricity Oversight Board have filed complaints with the FERC alleging that the agreement, as well as other agreements entered into by the DWR with other electricity suppliers, do not provide just and reasonable rates, and seeking to abrogate or reform the agreements. On April 24, 2002, the FERC ordered hearings on the complaints. The order requires the complainants to satisfy a "heavy" burden of proof to support a revision of the contracts, and cited the FERC's long-standing policy to recognize the sanctity of contracts, from which it has deviated only in "extreme circumstances." Hearings will begin in December, 2002. Settlement negotiations are ongoing. The FERC expects to issue a final decision by May 2003.

Although the contract is subject to ongoing litigation and regulatory proceedings, both SER and the State of California are performing under this contract, which is scheduled to end on September 30, 2011, and SER and the State of California are continuing discussions on the contract. Information concerning the litigation is provided in Note 2 of the notes to Consolidated Financial Statements.

On October 31, 2002, SER completed its previously announced acquisition of a 305-megawatt, coal-fired power plant (to be renamed Twin Oaks Power) from Texas-New Mexico Power Company for $120 million. SER has a five-year contract to sell substantially all of the output of the plant and an 18-year coal supply contract.

The 1,200-megawatt Mesquite Power Plant near Phoenix, Arizona, is expected to commence commercial operations at 50-percent capacity in

June 2003 and at full capacity in December 2003. This project has been financed through a synthetic lease agreement. Under this agreement, SER is reimbursed monthly for most project costs. Through September 30, 2002, SER had received $433.6 million under this facility. All amounts above $280 million require collateralization through purchases of Treasury Bonds, which must be at least equal to 103 percent of the amount drawn. That collateralization was $159.1 million at September 30, 2002, and is included in "Investments" on the Consolidated Balance Sheets.

SER also has contracted for two turbine sets (each consisting of two gas turbines and one steam turbine), beyond those required for its plants currently under construction. Six additional sites, two of which are already fully permitted, are being evaluated for potential power plant locations and SER intends to use these turbine sets at two of these sites.

See also the comment concerning the CPUC's prohibition of IOUs' procuring electricity from their affiliates in "Electric Industry Restructuring" in Note 2 of the notes to Consolidated Financial Statements.

OTHER OPERATIONS

SES recorded net income of $11 million for the nine-month period ending September 30, 2002, compared with a net loss of $4 million for the corresponding period in 2001, and net income of $5 million and $0.1 million for the three-month periods ended September 30, 2002 and 2001, respectively. The improvement resulted from increased commodity sales.

The CPUC's decisions concerning direct access, described in "Electric Industry Restructuring" in Note 2 of the notes to Consolidated Financial Statements, affect SES's ability to enter into contracts to sell electricity in California.

SEF invests in limited partnerships, which own 1,300 affordable-housing properties throughout the United States, Puerto Rico and the Virgin Islands, and tax-advantaged synthetic fuel facilities. These investments are expected to provide income-tax benefits, primarily from income-tax credits. SEF recorded net income of $23 million and $20 million for the nine-month periods ended September 30, 2002 and 2001, respectively, and net income of $9 million and $7 million for the three-month periods ended September 30, 2002 and 2001, respectively. SEF's future investment policy is dependent on the company's future domestic income-tax position.

FACTORS INFLUENCING FUTURE PERFORMANCE

Base results of the company in the near future will depend primarily on the results of the California utilities, while earnings growth and volatility will result primarily from activities at SET, SEI, SER and other businesses. Recent developments concerning the factors influencing future performance are summarized below. Note 2 of the notes to Consolidated Financial Statements and the company's Annual Report describe events in the deregulation of California's electric and natural gas industries.

Merger Savings

In October 2001, the CPUC denied the California utilities' request to continue equal sharing between ratepayers and shareholders of estimated savings stemming from the 1998 merger between the California utilities' former parent companies. Instead, the CPUC ordered that all of the estimated 2003 merger savings go to ratepayers. The annual shareholder portion of the pretax savings for 2002 is $41 million.

Investments

As described in the company's Annual Report, the company has various investments and projects that will impact the company's future performance. Earlier this year, SET completed three acquisitions that add base metals trading and warehousing to its trading business. These acquisitions are Sempra Metals Limited (formerly Enron Metals Limited), Sempra Metals Concentrates (formerly a part of Enron Metals & Commodity Corp.) and Henry Bath, and are further described in "Cash Flows From Investing Activities." These acquisitions are expected to contribute to Sempra Energy's earnings in 2002. In addition, on October 31, 2002, SER completed its previously announced acquisition of a 305-megawatt, coal-fired power plant (to be renamed Twin Oaks Power) from Texas-New Mexico

Power Company for $120 million. SER has a five-year contract to sell substantially all of the output of the plant and an 18-year coal supply contract.

Electric-Generation Assets

As described in the company's Annual Report, the company is involved in the development of several electric-generation projects that will significantly impact the company's future performance. The power plants that SER is building in Arizona, California and Mexico are on schedule to commence operations by the end of 2003. SER has approximately 2,400 megawatts of new generation in operation or under construction. The 570-megawatt Elk Hills power project, 50 percent owned by SER and located near Bakersfield, California, is expected to begin commercial operations in March 2003. The 1,200-megawatt Mesquite Power Plant near Phoenix, Arizona, is expected to commence commercial operations in June 2003. Termoelectrica de Mexicali, a 600-megawatt power plant near Mexicali, Baja California, Mexico, is expected to commence commercial operations in the summer of 2003. Electricity from the plants will be available for markets in California, Arizona and Mexico. SER's projected portfolio of plants in the western United States and Baja California, Mexico, will supply power to the state of California under SER's agreement with the DWR. See further discussion above concerning negotiations with the DWR about the contract, under "Sempra Energy Resources," concerning SER's contract with the DWR.

Operating costs of SONGS Units 2 and 3, including nuclear fuel and related financing costs, and incremental capital expenditures are recovered through a performance incentive pricing plan (ICIP) which allows SDG&E to receive approximately 4.4 cents per kilowatt-hour for SONGS generation. Any differences between these costs and the incentive price affect net income and, for the nine-month period ended September 30, 2002, ICIP contributed $37 million to SDG&E's net income. The CPUC has rejected an administrative law judge's proposed decision to end ICIP prior to its December 31, 2003 scheduled expiration date. However, the CPUC has also denied the previously approved market-based pricing for SONGS beginning in 2004 and instead provided for traditional rate-making treatment under which the SONGS ratebase would begin at zero, essentially eliminating earnings from SONGS until ratebase grows. SDG&E has applied for a rehearing of this decision as contrary to market-based pricing contemplated by the overall SONGS ratemaking mechanism adopted by the CPUC in establishing ICIP in 1996. If SDG&E were to be granted market-based rates, SDG&E believes the impact of the end of ICIP would be somewhat reduced.

Gas and Electric Rates

On November 7, 2002, the CPUC granted SDG&E an increase in its authorized return on equity from 10.6 percent to 10.9 percent. This change will result in a revenue requirement increase of $2.4 million ($1.9 million electric and $0.5 million gas), effective January 1, 2003. The decision will increase SDG&E's overall rate of return from 8.75 percent to 8.77 percent.

SoCalGas has a Cost of Capital Trigger Mechanism under which the company's rate of return and customer rates authorized by the CPUC are subject to automatic cost of capital adjustments for certain changes in interest rates. On October 8, 2002, such a trigger occurred. Therefore, there will be an automatic downward adjustment in rates by a formula that updates the cost of each component of SoCalGas' capital structure. SoCalGas will file an advice letter at the CPUC and expects the filing will reduce its annual margin effective January 1, 2003, by an amount expected to be approximately $10 million as a result of the triggering of this mechanism. This would reduce SoCalGas' annual after-tax income by approximately $6 million.

The CPUC has adopted a settlement proposed by SoCalGas in a recent case involving review of its Gas Cost Incentive Mechanism (GCIM). The CPUC decision finds that this mechanism, which allows SoCalGas to receive a share of the savings it achieves in buying natural gas for core customers, should continue indefinitely. Savings are determined by comparing the actual cost of gas purchases to a benchmark of monthly prices. SoCalGas has requested that the CPUC approve rewards of $30.8 million and $17 million for the last two completed program years. No rewards are included in SoCalGas' earnings until approved by the CPUC. CPUC approval of these rewards is expected in 2003, pending the Commission's investigation into the run-up in California border natural gas prices during the winter of 2000-2001.

SDG&E has a Gas Procurement Performance-Based Ratemaking (PBR) mechanism that allows SDG&E to receive a share of the savings it achieves by

buying natural gas for customers below a monthly benchmark. In March 2002, SDG&E requested a reward of $7 million for the PBR natural gas procurement period ended July 31, 2001 (Year 8). No reward will be included in SDG&E's earnings until it is approved by the CPUC, which is expected by the end of 2002. In October 2002, SDG&E filed its Year 9 report for the PBR natural gas procurement period ended July 31, 2002, reporting a $1.4 million penalty, which has been recorded as of September 30, 2002.

On June 17, 2002, SDG&E amended its March 21, 2002 joint application with Southern California Edison requesting the CPUC to set contribution levels for the SONGS nuclear decommissioning trust funds. SDG&E requested a rate increase to cover its share of total projected increased decommissioning costs for SONGS. If approved, the current annual contribution to SDG&E's trust funds, which is recovered in rates, would increase to $11.5 million annually from $4.9 million. Prior to August 1999, SDG&E's annual contribution had been $22 million.

In August 2002, the CPUC issued a resolution approving SDG&E's 2000 PBR report. The resolution approved SDG&E's request for a total net reward of $11.7 million (pretax), as well as SDG&E's actual 2000 rate of return (applicable only to electric distribution and gas transportation) of 8.74 percent, which is below the authorized 8.75 percent. This resulted in no sharing of earnings in 2000 under the PBR sharing mechanism described in the company's Annual Report. The financial results herein include the reward during the third quarter of 2002.

In September 2002, the CPUC issued a decision denying SoCalGas' and SDG&E's request to combine their natural gas procurement activities at this time, pending completion of the CPUC's ongoing investigation of market power issues.

The California utilities will file applications with the CPUC in December 2002 to set new base rates. A CPUC decision is expected in late 2003, with new rates to become effective January 1, 2004.

The California utilities have earned rewards for successful implementation of Demand-Side Management programs that have been scheduled by the CPUC for payout over several years. In a recent ruling, a CPUC Administrative Law Judge has indicated an intent to reanalyze the uncollected portion of past rewards earned by utilities (which have not been included in the California utilities' income), and potentially recompute the amount of the rewards. The California utilities will oppose the recomputation.

NEW ACCOUNTING STANDARDS

New statements by the Financial Accounting Standards Board that have recently become effective or are yet to be effective are numbers 142 through 146. They are described in Note 1 of the notes to Consolidated Financial Statements. Number 142 increases net income by ending the amortization of goodwill. Number 143 requires accounting and disclosure changes concerning legal obligations related to future asset retirements. Number 144 replaces number 121 in dealing with asset impairment issues. Number 145 makes technical corrections to previous statements and number 146 deals with exit and disposal activities, replacing Issue 94-3 of the Emerging Issues Task Force.

In June 2002, a consensus was reached in Emerging Issues Task Force (EITF) Issue 02-3 "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities," which codifies and reconciles existing guidance on the recognition and reporting of gains and losses on energy trading contracts and addresses other aspects of the accounting for contracts involved in energy trading and risk management activities. Among other things, the consensus requires that mark-to-market gains and losses on energy trading contracts should be shown net in the income statement, effective for financial statements issued for periods ending after July 15, 2002. This required that SES change its method of recording trading activities from gross to net. All other Sempra Energy subsidiaries were already recording trading activities net and required no change. The required reclassifications will have no impact on previously recorded gross margin, net income, or cash provided by operating activities.

In October 2002, the EITF repealed EITF Issue 98-10, the basis for mark-to-market accounting by many companies, including SET and SES. Many of the transactions accorded mark-to-market accounting by 98-10 will still be accorded mark-to-market accounting based on SFAS 133 "Accounting for Derivative Instruments and Hedging Activities." The impact of the repeal of 98-10 for the company is not yet known, but preliminarily it believes that the majority of the revenue recorded under mark-to-market

accounting based on EITF 98-10 will still be recorded under mark-to-market accounting based on SFAS 133.

ITEM 3. MARKET RISK

There have been no significant changes in the risk issues affecting the company subsequent to those discussed in the Annual Report. As noted in that report, the California utilities may, at times, be exposed to limited market risk in their natural gas purchase and sale activities as a result of activities under SDG&E's gas Performance-Based Regulation mechanism or SoCalGas' Gas Cost Incentive Mechanism. The risk is managed within the parameters of the company's market-risk management and trading framework.

The Value at Risk (VaR) for SET at September 30, 2002, and the average VaR for the nine-month period ended September 30, 2002, at the 95-percent and 99-percent confidence intervals (one-day holding period) were as follows (in millions of dollars):

	95%	99%
At September 30, 2002	$7.7	$10.8
Average for the nine months ended 9/30/02	$6.1	$8.6

As of September 30, 2002, the total VaR of the California utilities' and SES's natural gas positions was not material.

ITEM 4. CONTROLS AND PROCEDURES

The company has designed and maintains disclosure controls and procedures to ensure that information required to be disclosed in the company's reports under the Securities Exchange Act of 1934 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-benefit relationship of other possible controls and procedures. In addition, the company has investments in unconsolidated entities that it does not control or manage and, consequently, its disclosure controls and procedures with respect to these entities are necessarily substantially more limited than those it maintains with respect to its consolidated subsidiaries.

Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the company within 90 days prior to the date of this report has evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures. Based on that evaluation, the company's Chief Executive Officer and Chief Financial Officer have concluded that the controls and procedures are effective.

There have been no significant changes in the company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the company completed its evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as described in Note 2 of the notes to Consolidated Financial Statements, 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 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 10 - Material Contracts

10.1 Form of Employment Agreement between Sempra Energy and Stephen L. Baum.

10.2 Form of Employment Agreement between Sempra Energy and

Donald E. Felsinger.

10.3 Amended and Restated Sempra Energy Deferred Compensation and Excess Savings Plan.

Exhibit 12 - Computation of ratios

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

(b) Reports on Form 8-K

The following reports on Form 8-K were filed after June 30, 2002:

Current Report on Form 8-K filed July 24, 2002, filing as an exhibit Sempra Energy's press release of July 23, 2002, giving the financial results for the three-month period ended June 30, 2002.

Current Report on Form 8-K filed August 14, 2002, filing as an exhibit Statements Under Oath of Principal Executive Officer and Principal Financial Officer Regarding Facts and Circumstances Relating to Exchange Act Filings pursuant to 18 U.S.C. Sec. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.

Current Report on Form 8-K filed October 25, 2002, filing as an exhibit Sempra Energy's press release of October 22, 2002, giving the financial results for the three-month period ended September 30, 2002.

SIGNATURE

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

SEMPRA ENERGY
(Registrant)

Date: November 8, 2002

By: /s/ F. H. Ault
F. H. Ault
Sr. Vice President and Controller

CERTIFICATIONS

I, Stephen L. Baum, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sempra Energy;

2. Based on my knowledge, this Quarterly 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 Quarterly Report;

3. Based on my knowledge, the financial statements and other financial information included in this Quarterly 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 Quarterly Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 Quarterly Report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and

c) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 8, 2002

/s/ Stephen L. Baum
Stephen L. Baum
Chief Executive Officer

I, Neal E. Schmale, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sempra Energy;

2. Based on my knowledge, this Quarterly 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 Quarterly Report;

3. Based on my knowledge, the financial statements and other financial information included in this Quarterly 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 Quarterly Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 Quarterly Report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and

c) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 8, 2002

/s/ Neal E. Schmale
Neal E. Schmale
Chief Financial Officer

EXHIBIT 10.1

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") made and entered into as of the 17th day of September, 2002 (the "Effective Date"), by and between Sempra Energy (the "Company"), a California corporation, and Stephen L. Baum (the "Executive");

WHEREAS, the Company and the Executive are parties to that certain Employment Agreement, dated as of October 12, 1996 and amended from time to time (the "Prior Employment Agreement"), pursuant to which the Company currently employs the Executive;

WHEREAS, the Company and the Executive each have determined that it would be to the advantage and best interest of the Company and the Executive to enter into a new employment agreement upon the terms set forth in this Agreement; and

WHEREAS, the Company and the Executive desire to have this Agreement govern the terms of the Executive's employment during the Employment Period (as defined below).

NOW, THEREFORE, IN CONSIDERATION of the mutual premises, covenants and agreements set forth below, it is hereby agreed as follows:

1. Employment and Term.
    a. Employment. The Company agrees to employ the Executive, and the Executive agrees to be employed by the Company, in accordance with the terms and provisions of this Agreement during the term thereof (as described below).
    b. Term. The term of the Executive's employment under this Agreement shall commence on the Effective Date and shall continue until January 31, 2006 (the "Retirement Date"), subject to earlier termination as provided herein (such term being referred to hereinafter as the "Employment Period").
2. Duties and Powers of Executive.
    a. Position. During the Employment Period, the Executive shall be nominated to the position of, and if elected shall serve as, Chairman of the Board of Directors of the Company (the "Board"), Chief Executive Officer and President of the Company with such authority, duties and responsibilities with respect to such position as set forth below; *provided, however,* that if any law or regulation applicable to the Company prohibits an executive officer from holding the title of both (i) Chairman of the Board and (ii) Chief Executive Officer or President, then the Executive shall serve only as Chief Executive Officer and President of the Company; *provided, further,* that in such event, the Executive may elect to retire by notifying the Company no later than 180 days following the election of a new Chairman of the Board and receive the benefits described in Section 5(d). The Executive shall report only to the Board. The senior-most person in charge of the Company's regulated and nonr egulated businesses and the senior-most person in charge of each of the Company's policy units shall report directly to the Executive.
    b. Duties.
        i. Chief Executive Officer. The duties of the Chief Executive Officer of the Company shall include but not be limited to directing the overall business, affairs and operations of the Company, through its officers, all of whom shall report directly or indirectly to the Chairman of the Board.
        ii. Chairman of the Board. The Chairman of the Board shall be a director and shall preside at meetings of the Board and meetings of the shareholders. The Chairman of the Board shall have such duties and responsibilities as are customarily assigned to such positions.
        iii. President. The President of the Company shall report to the Chief Executive Officer whom the President shall assist in directing the overall business, affairs and operations of the Company and by undertaking other efforts or activities requested by the Chief Executive Officer.
        iv. Successor Planning. Notwithstanding the foregoing, during a reasonable period prior to the Expiration Date, the Executive agrees to cooperate with, and assist, the Company in its efforts to transition a new successor to the Executive's position, and the Board may appoint a Chief Operating Officer or other executive officer with a different title to assist the Executive in directing the overall business, affairs and operations of the Company under the Executive's supervision, without violating the terms of this Agreement.
    c. Board Membership. The Executive shall be a member of the Board as of the Effective Date, and the Board shall propose the Executive for re-election to the Board throughout the Employment Period.
    d. Attention. During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive shall devote full attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive under this Agreement, use the Executive's best efforts to carry out such responsibilities faithfully and efficiently. It shall not be considered a violation of the foregoing for the Executive to serve on corporate, industry, civic or charitable boards or committees, so long as such activities do not interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement.
3. Compensation.

It is the Board's intention to provide the Executive with compensation opportunities that, in total, are at a level that is consistent with that provided by comparable companies to executive officers of similar levels of responsibility, expertise and corporate and individual performance as determined by the compensation committee of the Board. In this regard, the Executive shall receive the following compensation for his services hereunder to the Company:

a. Base Salary. During the Employment Period, the Executive's annual base salary ("Annual Base Salary") shall be payable in accordance with the Company's general payroll practices. During the Employment Period, the Executive's Annual Base Salary shall in no event be less than $1,019,000. Subject to Section 4(d)(ii), the Board in its discretion may from time to time direct such upward adjustments in the Executive's Annual Base Salary as the Board deems to be necessary or desirable, including, without limitation, adjustments in order to reflect increases in the cost of living and the Executive's performance. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation of the Company under this Agreement. For purposes of Sections 3(b), 4(d)(ii), 5(a)(i), 5(a)(ii), 5(a)(v) and 10(c), reference to Annual Base Salary shall mean the highest Annual Base Salary payable to the Executive at any time during the term of this Agreement.
b. Incentive Compensation. Subject to Section 4(d)(ii), during the Employment Period, the Executive shall participate in annual incentive compensation plans and long-term incentive compensation plans of the Company and, to the extent appropriate, the Company's subsidiaries (which long-term incentive compensation plans may include plans offering stock options, restricted stock and other long-term incentive compensation and all such annual and long-term plans to be hereinafter referred to as the "Incentive Compensation Plans") and will be granted awards thereunder providing him with the opportunity to earn, on a year-by-year basis, annual and long-term incentive compensation (the "Incentive Compensation Awards") at least equal (in terms of target, maximum and minimum award levels expressed as a percentage of Annual Base Salary) to the Executive's opportunities that were in effect immediately prior to the Effective Date. The target award level opportunities in effect immediately pr ior to the Effective Date were 100% of Annual Base Salary for annual incentive awards and 345% of Annual Base Salary for long term incentive awards. Any equity awards granted to the Executive may be granted, at the Executive's election, to trusts established for the benefit of members of the Executive's family.
c. Retirement and Welfare Benefit Plans. In addition to the benefits provided under Section 3(b), during the Employment Period and so long as the Executive is employed by the Company, he shall be eligible to participate in all other savings, retirement and welfare plans, practices, policies and programs applicable generally to employees and/or senior executive officers of the Company and its domestic subsidiaries, at a level and on terms and conditions no less favorable than those available to the Executive immediately prior to the Effective Date, except with respect to any benefits under any plan, practice, policy or program to which the Executive has waived his rights in writing. The Executive shall participate in the Sempra Energy Supplemental Executive Retirement Plan (the "SERP") which permanently adopted and incorporated by reference the San Diego Gas and Electric Supplemental Executive Retirement Plan and notwithstanding anything to the contrary in the SERP, his SERP benefit shall be determined as if the Executive was at least age 62.
d. Expenses. The Company shall reimburse the Executive for all expenses, including those for travel and entertainment, properly incurred by him in the performance of his duties hereunder in accordance with policies established from time to time by the Board.
e. Fringe Benefits and Perquisites. During the Employment Period and so long as the Executive is employed by the Company, he shall be entitled to receive fringe benefits and perquisites in accordance with the plans, practices, programs and policies of the Company and, to the extent appropriate, the Company's subsidiaries from time to time in effect, commensurate with his position.
f. Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any provision of this Agreement is likely to be interpreted as a personal loan prohibited by the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder (the "Act"), then such provision shall be modified as necessary or appropriate so as to not violate the Act and if this cannot be accomplished, then the Company shall use its reasonable efforts to provide the Executive with similar, but lawful, substitute benefits at a cost to the Company not to significantly exceed the amount the Company would have otherwise paid to provide such benefit(s) to the Executive.

4. Termination of Employment.
a. Death or Disability. The Executive's employment shall terminate upon the Executive's death or, at the election of the Board or the Executive, by reason of Disability (as herein defined) during the Employment Period; *provided, however,* that the Board may not terminate the Executive's employment hereunder by reason of Disability unless (i) at the time of such termination there is no reasonable expectation that the Executive will return to work within the next ninety (90) day period and (ii) such termination is permitted by all applicable disability laws. For purposes of this Agreement, disability ("Disability") shall have the same meaning as set forth in the Company's long-term disability plan or its successor.
b. By the Company for Cause. The Company may terminate the Executive's employment during the Employment Period for Cause (as herein defined). For purposes of this Agreement, "Cause" shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 4(d)) or (ii) the Executive's commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony)

which have or result in an adverse effect on the Company, monetarily or otherwise or one or more significant acts of dishonesty. For purposes of clause (i) of this definition, no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, o r omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company.

c. By the Company without Cause. Notwithstanding any other provision of this Agreement, the Company may terminate the Executive's employment other than by a termination for Cause during the Employment Period, but only upon the affirmative vote of three-fourths (3/4) of the membership of the Board.

d. By the Executive for Good Reason. The Executive may terminate his employment during the Employment Period for Good Reason (as herein defined). For purposes of this Agreement, "Good Reason" shall mean the occurrence without the written consent of the Executive of any one of the following acts by the Company, or failures by the Company to act, unless such act or failure to act is corrected (or denied in the event of clause (xi) below) by the Company within 30 days after the Company receives the Notice of Termination (as hereinafter defined) given in respect thereof:

   i. an adverse change in the Executive's title, authority, duties, responsibilities or reporting lines as specified in Section 2(a) and 2(b) of this Agreement; *provided, however*, that the inability of the Executive to serve as Chairman of the Board pursuant to Section 2(a) or the appointment of a Chief Operating Officer or other executive officer pursuant to Section 2(b) shall not constitute Good Reason;

   ii. a reduction by the Company in (A) the Executive's Annual Base Salary as in effect on the date hereof or as the same may be increased from time to time or (B) the Executive's aggregate annualized compensation and benefits opportunities, except, in the case of both (A) and (B), for across-the-board reductions similarly affecting all executive officers (both of the Company and of any Person (as hereinafter defined) then in control of the Company) whose compensation is directly determined by the compensation committee of the Board (and the compensation committee of the board of directors of any Person (as hereinafter defined) then in control of the Company); *provided that*, the exception for across-the-board reductions shall not apply following a Change in Control (as hereinafter defined);

   iii. the relocation of the Executive's principal place of employment to a location away from the Company's headquarters or a relocation of the Company's headquarters to a location further away which is both further away from Executive's residence and more than thirty (30) miles from such headquarters or a substantial increase in the Executive's business travel obligations outside of the Southern California area as of the Effective Date other than any such increase that (A) arises in connection with extraordinary business activities of the Company and (B) is understood not to be part of the Executive's regular duties with the Company;

   iv. the failure by the Company to pay to the Executive any portion of the Executive's current compensation and benefits or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

   v. the failure by the shareholders to elect the Executive to the Board during the Employment Period;

   vi. the failure by the Board to elect the Executive to the positions of Chairman of the Board, President and Chief Executive Officer during the Employment Period; *provided*, *however*, that the failure by the Board to elect the Executive to the position of Chairman of the Board during the Employment Period as a result of the inability of the Executive to serve as Chairman of the Board pursuant to Section 2(a) shall not constitute Good Reason;

   vii. any purported termination of the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 4(f); for purposes of this Agreement, no such purported termination shall be effective;

   viii. the failure by the Company to obtain a satisfactory agreement from any successor of the Company requiring such successor to assume and agree to perform the Company's obligations under this Agreement, as contemplated in Section 12;

   ix. the failure by the Company to provide the indemnification and D&O insurance protection Section 7 of this Agreement requires it to provide;

   x. the failure by the Company to comply with any material provision of this Agreement; or

   xi. the announcement of the Company's intent to take one of the actions or omissions to act, as applicable, described in clauses (i) through (x) above.

e. Following a Change in Control (as hereinafter defined), the Executive's determination that an act or failure to act constitutes Good Reason shall be presumed to be valid unless such determination is deemed to be unreasonable by an arbitrator. The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

f. Change in Control. Change in Control shall mean the occurrence of any of the following events:

   i. Any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by 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

ii. The following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the Effective Date, constitute the Board 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 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 transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of secu rities of the Company (not including in the securities beneficially owned by 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.

"Person" shall have the meaning given in section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act"), 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 stock of the Company, or (v) a person or group as used in Rule 13d-l(b) under the Exchange Act.

"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

Notwithstanding the foregoing, any event or transaction which would otherwise constitute a Change in Control (a "Transaction") shall not constitute a Change in Control for purposes of this Agreement if, in connection with the Transaction, the Executive participates as an equity investor in the acquiring entity or any of its affiliates (the "Acquiror"). For purposes of the preceding sentence, the Executive shall not be deemed to have participated as an equity investor in the Acquiror by virtue of (i) obtaining beneficial ownership of any equity interest in the Acquiror as a result of the grant to the Executive of an incentive compensation award under one or more incentive plans of the Acquiror (including, but not limited to, the conversion in connection with the Transaction of incentive compensation awards of the Company into incentive compensation awards of the Acquiror), on terms and conditions not substantially more generous than those applicable to other executive officers (of eith er the Company or the Acquiror) immediately prior to the Transaction, after taking into account normal differences attributable to job responsibilities, title and the like, (ii) obtaining beneficial ownership of any equity interest in the Acquiror on terms and conditions substantially equivalent to those obtained in the Transaction by all other shareholders of the Company, or (iii) obtaining beneficial ownership of any equity interest in the Acquiror in a manner unrelated to a Transaction.

g. Notice of Termination. During the Employment Period, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 13(b). For purposes of this Agreement, a "Notice of Termination" shall mean a notice that shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-fourths (3/4) of the entire membership of the Board at a meeting of the Board that was called and held no more than ninety (90) days after the date the Board had knowledge of the most recent act or omission giving rise to su ch breach for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity

for the Executive, together with the Executive's counsel, to be heard before the Board and, if possible with respect to clause (i) of the definition of Cause herein, to cure the breach that was the basis for the Notice of Termination for Cause within a reasonable period) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail. Unless the Board determines otherwise, a Notice of Termination by the Executive alleging a termination for Good Reason must be made within 180 days of the act or failure to act that the Executive alleges to constitute Good Reason.

h. Date of Termination. "Date of Termination," with respect to any purported termination of the Executive's employment during the Employment Period, shall mean the date specified in the Notice of Termination (which, in the case of a termination by the Company, for reasons other than Cause, shall not be less than thirty (30) days and, in the case of a termination by the Executive, shall not be less than fifteen (15) days (thirty (30) days if the termination is with Good Reason) nor more than sixty (60) days), from the date such Notice of Termination is given).

5. Obligations of the Company Upon Termination.

a. Termination by the Company Other Than for Cause, Death or Disability or by the Executive for Good Reason. During the Employment Period, if the Company shall terminate the Executive's employment (other than for Cause, death or Disability) or the Executive shall terminate his employment for Good Reason (termination in any such case being referred to as "Termination"), the Company shall pay to the Executive the amounts, and provide the Executive with the benefits, described in this Section 5 (hereinafter referred to as the "Severance Payments") and any amounts or benefits described in Section 7 of this Agreement. The amounts specified in this Section 5(a) shall be paid within thirty (30) days after the Date of Termination.

i. Lump Sum Payment. In lieu of any further payments of Annual Base Salary or annual Incentive Compensation Awards to the Executive for periods subsequent to the Date of Termination, the Company shall pay to the Executive a lump sum amount in cash equal to the product of (X) the sum of (A) the Executive's Annual Base Salary and (B) the greater of the Executive's target bonus for the year of termination under the Company's Executive Incentive Plan (or any successor plan) or the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive in the five (5) years preceding the year of termination, and (Y) the number of years remaining in the Employment Period (including fractional years) minus one (1), but in no event shall the net multiplier be less than one (1); *provided, however*, that in the event of a Termination following a Change in Control such net multiplier shall not be less than two (2).

ii. Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid and (C) an amount equal to the target amount payable under any annual Incentive Compensation Awards for the fiscal year that includes the Date of Termination or, if greater, the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of Termination multiplied by a fraction the numerator of which shall be the number of days from the beginning of such fiscal year to and including the Date of Termination and the denominator of which shall be 365, in each case to the extent not theretofore paid. (The amounts specified in clauses (A), (B) and (C) shall be hereinafter referred to as the "Accrued Obligations.")

iii. Other. The Executive's termination shall be a "Qualifying Termination" as defined in the Split Dollar Life Insurance Agreement entered into between the Executive and the Company.

iv. Accelerated Vesting and Payment of Long-Term Incentive Awards. Notwithstanding the provisions of any applicable equity-based compensation plan or award agreement to the contrary, all equity-based incentive compensation awards (including, without limitation, stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards, section 162(m) awards, and dividend equivalents) held by the Executive under any annual incentive compensation plan or long-term incentive compensation plan maintained by the Company shall immediately vest and become exercisable or payable, as the case may be, as of the Date of Termination, to be exercised or paid, as the case may be, in accordance with the terms of the applicable plan and award agreement, and any restrictions on any such awards shall automatically lapse; *provided, however*, that any stock options granted on or after the Effective Date shall remain outstanding and exercisable until the earlier of (A) the later of sixty (60) months following the date on which the Executive would attain age 65 or the period specified in the applicable award agreements or (B) the expiration of the original term of such award (it being understood that all awards granted prior to the Effective Date shall remain outstanding and exercisable for a period that is no less than that provided for in the applicable agreement in effect as of the date of grant). Any such equity-based awards tied to performance criteria shall be assumed to have been achieved at target levels. The Company shall pay to the Executive, with respect to all cash-based, long-term Incentive Compensation Awards (excluding those awards which constitute an equity award as described above) made to the Executive that are outstanding under any long-term Incentive Compensation Plan maintained by the Company or any affiliate an amount equal to the target

amount payable under such long-term Incentive Compensation Awards multiplied by a fraction, the nu merator of which shall be the number of days from the beginning of the award cycle to and including the Date of Termination, and the denominator of which shall be the number of days in the cycle as originally granted.

v. Continuation of Welfare Benefits. For a period of three (3) years or until the Executive is eligible for retiree medical benefits, whichever is longer, immediately following the Date of Termination, the Company shall arrange to provide the Executive and his dependents with life, disability, accident and health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the Date of Termination, *provided, however*, that if the Executive becomes employed with another employer and is eligible to receive life, disability, accident and health insurance benefits under another employer-provided plan, the benefits under the Company's plans shall be secondary to those provided under such other plan during such applicable period of eligibility, and *further provided, however*, that in the event of a termination following a Change in Control such period shall not be less than the number of years until the Executive reaches normal retirement age as defined under the Company's tax-qualified plans. In the event the Executive is ineligible under the terms of such benefit plans to continue to be so covered, in such event, the Company shall provide the Executive with substantially equivalent coverage through other sources or shall provide the Executive with a lump sum payment in such amount that, after all taxes on that amount, shall be equal to the cost to the Executive of providing the Executive such benefit coverage. Following the Date of Termination, the Company shall continue to pay sufficient premiums under the Sempra Energy Executive Life Insurance Plan to provide (1) a death benefit equal to two times the sum of (A) Annual Base Salary plus (B) the average of the three (3) highest bonuses paid under the Company's Executive Incentive Plan (or any predecessor or successor plan) during the preceding ten years ("pre-age 65 benefit"), and (2) a cash value at age 65 sufficient to maintain that insurance in effect thereafter without any f urther premiums and with a death benefit of one-half the pre-age 65 benefit. All premiums will be grossed up for taxes using the maximum marginal federal and state income tax rates.

vi. Outplacement Services. The Executive shall receive outplacement services suitable to his position for a period of twenty-four (24) months following the Date of Termination (thirty-six (36) months following the Date of Termination in the event of a Termination following a Change in Control), in the aggregate amount not to exceed $50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer.

vii. Financial Planning Services. The Executive shall receive financial planning services for a period of twenty-four (24) months following the Date of Termination (thirty-six (36) months following the Date of Termination in the event of a Termination following a Change in Control), at a level consistent with the benefits provided under the Company's financial planning program for the Executive, as in effect immediately prior to the Date of Termination.

viii. Change in Control. Notwithstanding anything contained herein, if a Change in Control occurs and if, prior to the date of the Change in Control, the Executive's employment is terminated by the Company (other than for Cause, death or Disability), or by the Executive for Good Reason, and if such Termination (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change in Control or (ii) otherwise arose in connection with or in anticipation of the Change in Control, then such Termination shall be treated as a Termination following a Change in Control for purposes of this Agreement (including, without limitation, for purposes of determining the amounts of the Severance Payments under this Section 5).

ix. Deferral of Payments. The Executive shall have the right to elect to defer any lump sum payments received by the Executive pursuant to this Section 5(a) under the terms and conditions of the Company's nonqualified deferred compensation plan.

b. Termination by the Company for Cause or by the Executive Other than for Good Reason. If the Executive's employment shall be terminated for Cause during the Employment Period, or if the Executive terminates employment during the Employment Period other than for Good Reason, the Company shall have no further obligations to the Executive under this Agreement other than the Accrued Obligations and any amounts or benefits described in Section 7 of this Agreement.

c. Termination due to Death or Disability. If the Executive's employment shall terminate by reason of death or Disability, the Company shall pay the Executive or his estate, as the case may be, the Accrued Obligations and, solely in the case of termination by reason of Disability, the benefit described in Section 5(a)(iii), and any amounts or benefits described in Section 7 of this Agreement. Such payments shall be in addition to those rights and benefits to which the Executive or his estate may be entitled under the relevant Company plans or programs.

d. Retirement Date/Expiration of Employment Period. If the Executive remains employed with the Company through the Retirement Date or the Executive elects to retire early pursuant to Section 2(a), the Company shall pay to the Executive the amounts, and provide the Executive with the benefits, described in this Section 5(d) and any amounts or benefits described in Section 7:

i. The Accrued Obligations.

ii. The Executive shall continue to participate in the Company's Executive Medical Plan with benefits substantially similar to those provided to the Executive and his dependents immediately prior to the Retirement Date for a period of five (5) years following the Retirement Date. In the event the

Executive is ineligible under the terms of the Company's Executive Medical Plan to continue to be so covered, the Company shall provide the Executive with substantially equivalent coverage through other sources or shall provide the Executive with a lump sum payment in such amount that, after all taxes on that amount, shall be equal to the cost to the Executive of providing the Executive such benefit coverage.

iii. Notwithstanding the provisions of any applicable equity-based compensation plan or award agreement to the contrary, all equity-based incentive compensation awards (including, without limitation, stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards, section 162(m) awards, and dividend equivalents) held by the Executive under any annual incentive compensation plan or long-term incentive compensation plan maintained by the Company shall immediately vest and become exercisable or payable, as the case may be, as of the Date of Termination, to be exercised or paid, as the case may be, in accordance with the terms of the applicable plan and award agreement, and any restrictions on any such awards shall automatically lapse; *provided, however*, that any stock options granted on or after the Effective Date shall remain outstanding and exercisable until the earlier of (A) the later of sixty (60) months following the date on whi ch the Executive would attain age 65 or the period specified in the applicable award agreements or (B) the expiration of the original term of such award (it being understood that all awards granted prior to the Effective Date shall remain outstanding and exercisable for a period that is no less than that provided for in the applicable agreement in effect as of the date of grant). Any such equity-based awards tied to performance criteria shall be assumed to have been achieved at target levels. The Company shall pay to the Executive, with respect to all cash-based, long-term Incentive Compensation Awards (excluding those awards which constitute an equity award as described above) made to the Executive that are outstanding under any long-term Incentive Compensation Plan maintained by the Company or any affiliate an amount equal to the target amount payable under such long-term Incentive Compensation Awards multiplied by a fraction, the numerator of which shall be the number of days from the beginning of the a ward cycle to and including the Date of Termination, and the denominator of which shall be the number of days in the cycle as originally granted.

iv. The Executive shall be eligible for the administrative support and services offered to retiring Chief Executive Officers of the Company in accordance with past practices of the Company, including access to and use of otherwise available Company facilities (such as offices, transportation, part-time secretarial support and other support services) as the Executive reasonably requests for a period of five (5) years following the Retirement Date.

v. If requested by the Executive, the Executive shall continue to receive financial planning services following the Retirement Date until the first anniversary of the Executive's death.

6. Certain Additional Payments by the Company.

a. Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise (the "Payment") would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax (collectively, "Excise Tax"), then the Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that, after payment by the Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an a mount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. The Company's obligation to make Gross-Up Payments under this Section 6 shall not be conditioned upon the Executive's termination of employment. For purposes of determining the amount of any Gross-Up Payment, the Executive shall be deemed to pay federal income tax at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the date on which the Gross-Up Payment is calculated for purposes of this Section 6, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

b. Subject to the provisions of Section 6(c), all determinations required to be made under this Section 6, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm as may be agreed by the Company and the Executive (the "Accounting Firm"); provided, that the Accounting Firm's determination shall be made based upon "substantial authority" within the meaning of Section 6662 of the Code. The Accounting Firm shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 6, shall be paid by the Company to the Executive within 5 days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the

"Underpayment"), consistent with the calculations required to be made hereunder. In the event the Company exhausts its remedies pursuant to Section 6(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

c. The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after the Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, the Executive shall:
    i. give the Company any information reasonably requested by the Company relating to such claim,
    ii. take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
    iii. cooperate with the Company in good faith in order effectively to contest such claim, and
    iv. permit the Company to participate in any proceedings relating to such claim;

    provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax, income tax or any other taxes (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 6(c), the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribuna l, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided, however*, that, if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax, income tax or any other taxes (including interest or penalties) imposed with respect to such advance or with respect to any imputed income in connection with such advance; and provided, further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and the Executive shal l be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

d. If, after the receipt by the Executive of a Gross-Up Payment or an amount advanced by the Company pursuant to Section 6(c), the Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 6(c), if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 6(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance s hall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

e. Notwithstanding any other provision of this Section 6, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of the Executive, all or any portion of any Gross-Up Payment, and the Executive hereby consents to such withholding. If such payment is made by the Company to the Internal Revenue Service or other applicable taxing authority, then the Executive shall not be entitled to payment pursuant to Section 6(b) above.

f. Any other liability for unpaid or unwithheld Excise Taxes shall be borne exclusively by the Company, in accordance with Section 3403 of the Code. The foregoing sentence shall not in any manner relieve the Company of any of its obligations under this Agreement.

7. Nonexclusivity of Rights.

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, plan, program, policy or practice provided by the Company and for which the Executive may qualify (except with respect to any benefit to which the Executive has waived his rights in writing), including without limitation any and all indemnification arrangements in favor of the Executive (whether under agreements or under the Company's charter

documents or otherwise), and insurance policies covering the Executive, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement entered into after the Effective Date with the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any benefit, plan, policy, practice or program of, or any contract or agreement entered into with, the Company shall be payable in accordance with such benefit, plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. At all times during the Executive's employment with the Company and thereafter until the expiration of all applicable statutes of limitation, the Company shall provide the Executive with indemnification and D& O insurance insuring the Executive against insurable events which occur or have occurred while the Executive was a director or executive officer of the Company, on terms and conditions that are at least as generous as that then provided to any other current or former director or executive officer of the Company or any affiliate.

8. Full Settlement Mitigation.

   The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, provided that nothing herein shall preclude the Company from separately pursuing recovery from the Executive based on any such claim. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts (including amounts for damages for breach) payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment.

9. Dispute Resolution.

   Any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the interpretation of this Agreement or any arrangements relating to this Agreement or contemplated in this Agreement or the breach, termination or invalidity thereof shall be settled by final and binding arbitration administered by JAMS/Endispute in San Diego, California in accordance with the then existing JAMS/Endispute Arbitration Rules and Procedures for Employment Disputes. In the event of such an arbitration proceeding, the Executive and the Company shall select a mutually acceptable neutral arbitrator from among the JAMS/Endispute panel of arbitrators. In the event the Executive and the Company cannot agree on an arbitrator, the Administrator of JAMS/Endispute will appoint an arbitrator. Neither the Executive nor the Company nor the arbitrator shall disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties. Except as provided herein, the Federal Arbitration Act shall govern the interpretation, enforcement and all proceedings. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the state of California, or federal law, or both, as applicable and the arbitrator is without jurisdiction to apply any different substantive law. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof.

10. Executive's Covenants.
    a. Confidentiality. The Executive acknowledges that in the course of his employment with the Company, he has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("Proprietary Information") of the Company, its subsidiaries and affiliates; and the Executive agrees that it would be extremely damaging to the Company, its subsidiaries and affiliates if such Proprietary Information were disclosed to a competitor of the Company, its subsidiaries and affiliates or to any other person or corporation. The Executive understands and agrees that all Proprietary Information has been divulged to the Executive in confidence and further understands and agrees to keep all Proprietary Information secret and confidential (except for such information which is or becomes publicly available other than as a result of a breach by the Executive of this provision or information the Executive is required by any governmental , administrative or court order to disclose) without limitation in time. In view of the nature of the Executive's employment and the Proprietary Information the Executive has acquired during the course of such employment, the Executive likewise agrees that the Company, its subsidiaries and affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that the Company, its subsidiaries and affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to the Board provided that the Company shall not unreasonably classify information as Proprietary Information.
    b. Non-Solicitation of Employees. The Executive recognizes that he possesses and will possess confidential information about other employees of the Company, its subsidiaries and affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company, its subsidiaries and affiliates. The Executive recognizes that the information he possesses and will possess about these other employees is not generally known, is of substantial value to the Company, its subsidiaries and affiliates in developing their business and in securing and retaining customers, and has been and will be acquired by him because of his business position with the Company, its subsidiaries and affiliates. The Executive agrees that, during the Employment Period and for a period of

one (1) year thereafter, he will not, directly or indirectly, solicit or recruit any employee of the Company, its subsidiaries or affiliates for the purpose of being em ployed by him or by any competitor of the Company, its subsidiaries or affiliates on whose behalf he is acting as an agent, representative or employee and that he will not convey any such confidential information or trade secrets about other employees of the Company, its subsidiaries and affiliates to any other person; *provided*, *however*, that it shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of the Company, its subsidiaries or affiliates who has either first contacted the Executive or regarding whose employment the Executive has discussed with and received the written approval of the Chairman of the Board prior to making such solicitation or recruitment. In view of the nature of the Executive's employment with the Company, the Executive likewise agrees that the Company, its subsidiaries and affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this pa ragraph and that the Company, its subsidiaries and affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them.

c. Release; Lump Sum Payment. In the event the Executive is terminated during the Employment Period by the Company other than for Cause, death or Disability or the Executive shall terminate his employment for Good Reason, if the Executive agrees (i) to the covenants described in subsections (a) and (b) above, (ii) to execute a release (the "Release") of all claims substantially in the form attached hereto as Exhibit A within forty-five days after the applicable Date of Termination and does not revoke such release in accordance with the terms thereof, and (iii) to provide the consulting services described in subsection (d), then in consideration for such covenants, the Company shall pay the Executive a lump sum amount in cash equal to the sum of (x) the Executive's Annual Base Salary, and (y) the greater of the Executive's target bonus for the year of termination under the Company's Executive Incentive Plan (or any successor plan) or the average of the three (3) years' highest gross annu al bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of termination. The amount specified in this Section 10(c) shall be paid as soon as practicable following the Executive's execution of the Release, and the Executive shall have the right to elect to defer such payment under the terms and conditions of the Company's nonqualified deferred compensation plan.

d. Consulting. If the Executive agrees to the covenants described in subsection (c), then the Executive shall have the obligation to provide consulting services to the Company as an independent contractor, commencing on the Date of Termination and ending on the second anniversary of the Date of Termination (the "Consulting Period"). The Executive shall hold himself available at reasonable times and on reasonable notice to render such consulting services as may be so assigned to him by the Company's Board of Directors or its then Chief Executive Officer; *provided*, *however*, that unless the parties otherwise agree, the consulting services rendered by the Executive during the Consulting Period shall not exceed 20 hours each month. The Company agrees to use its best efforts during the Consulting Period to secure the benefit of the Executive's consulting services so as to minimize the interference with the Executive's other activities, including requiring the performance of consulting services at the Company's offices only when such services may not be reasonably performed off-site by the Executive.

11. Legal Fees.

The Company shall pay to the Executive all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Executive in disputing in good faith any issue arising under this Agreement relating to the termination of the Executive's employment or in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement, but in each case only to the extent the arbitrator or court determines that the Executive had a reasonable basis for such claim.

12. Successors.

a. Assignment by Executive. This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

b. Successors and Assigns of Company. This Agreement shall inure to the benefit of and be binding upon the Company, its successors and assigns. The Company may not assign this Agreement to any person or entity (except for a successor described in subsection (c)) without the Executive's written consent.

c. Assumption. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its businesses and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

13. Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to its principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be

amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of such amendment, modification, repeal, waiver, extension or discharge is sought. No person, other than pursuant to a resolution of the Board or a committee thereof, shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto.

b. Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed, in either case, to the Company's headquarters or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.
c. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.
d. Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.
e. No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 4 of this Agreement, or the right of the Company to terminate the Executive's employment for Cause pursuant to Section 4 of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.
f. Entire Agreement. This instrument contains the entire agreement of the Executive, the Company or any predecessor or subsidiary thereof with respect to the subject matter hereof, and all promises, representations, understandings, arrangements and prior agreements are merged herein and superseded hereby including, but not limited to, the Prior Employment Agreement.
g. Legal Fees. The Company agrees to reimburse the Executive for the reasonable attorneys' fees and costs incurred by the Executive in negotiating and documenting this Agreement.

IN WITNESS WHEREOF, the Executive and, pursuant to due authorization from its Board of Directors, the Company have caused this Agreement to be executed as of the day and year first above written.

SEMPRA ENERGY

G. Joyce Rowland
Senior Vice President, Human Resources

Date

Stephen L. Baum
Chairman, President and Chief Executive Officer

Date

EXHIBIT A

GENERAL RELEASE

This GENERAL RELEASE (the "Agreement"), dated _____, is made by and between _____, a California corporation (the "Company") and _____ ("you" or "your").

WHEREAS, you and the Company have previously entered into that certain Employment Agreement dated September 17, 2002 (the "Employment Agreement"); and

WHEREAS, Section 10(c) of the Employment Agreement provides for the payment of a benefit to you by the Company in consideration for certain covenants, including your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, you and the Company hereby agree as follows:

ONE: Your signing of this Agreement confirms that your employment with the Company shall terminate at the close of business on _____, or earlier upon our mutual agreement.

TWO: As a material inducement for the payment of the benefit under Section 10 of that certain Employment Agreement between you and the Company, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims," shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to you and to the Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, advisors, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives, attorneys and advisors of such parent companies, divisions, subsidiaries and affiliates), and all persons acting by, through, under or in concert with any of them.

(b) The words "Claim" or "Claims" shall refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected, which you or the Company now, in the past or, except as limited by law or regulation such as the Age Discrimination in Employment Act (ADEA), in the future may have, own or hold against any of the Releasees; *provided, however*, that the word "Claim" or "Claims" shall not refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) arising under [*identify severance, employee benefits, stock option, indemnif ication and D&O and other agreements containing duties, rights obligations etc. of either party that are to remain operative*]. Claims released pursuant to this Agreement by you and the Company include, but are not limited to, rights arising out of alleged violations of any contracts, express or implied, any tort, any claim that you failed to perform or negligently performed or breached your duties during employment at the Company, any legal restrictions on the Company's right to terminate employees or any federal, state or other governmental statute, regulation, or ordinance, including, without limitation: (1) Title VII of the Civil Rights Act of 1964 (race, color, religion, sex and national origin discrimination); (2) 42 U.S.C Sec. 1981 (discrimination); (3) 29 U.S.C. Secs. 621-634 (age discrimination); (4) 29 U.S.C. Sec. 206(d)(l) (equal pay); (5) 42 U.S.C. Secs. 12101, et seq. (disability); (6) the California Constitution, Article I, Section 8 (discrimination); (7) the California Fair Emp loyment and Housing Act (discrimination, including race, color, national origin, ancestry, physical handicap, medical condition, marital status, religion, sex or age); (8) California Labor Code Section 1102.1 (sexual orientation discrimination); (9) Executive Order 11246 (race, color, religion, sex and national origin discrimination); (10) Executive Order 11141 (age discrimination); (11) Secs. 503 and 504 of the Rehabilitation Act of 1973 (handicap discrimination); (12) The Worker Adjustment and Retraining Act (WARN Act); (13) the California Labor Code (wages, hours, working conditions, benefits and other matters); (14) the Fair Labor Standards Act (wages, hours, working conditions and other matters); the Federal Employee Polygraph Protection Act (prohibits employer from requiring employee to take polygraph test as condition of employment); and (15) any federal, state or other governmental statute, regulation or ordinance which is similar to any of the statutes described in clauses (1) through (14).

THREE: You and the Company expressly waive and relinquish all rights and benefits afforded by any statute (including but not limited to Section 1542 of the Civil Code of the State of California) which limits the effect of a release with respect to unknown claims. You and the Company do so understanding and acknowledging the significance of the release of unknown claims and the waiver of statutory protection against a release of unknown claims (including but not limited to Section 1542). Section 1542 of the Civil Code of the State of California states as follows:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

Thus, notwithstanding, the provisions of Section 1542 or of any similar statute, and for the purpose of implementing a full and complete release and discharge of the Releasees, you and the Company expressly acknowledge that this Agreement is intended to include in its effect, without limitation, all Claims which are known and all Claims which you or the Company do not know or suspect to exist in your or the Company's favor at the time of execution of this Agreement and that this Agreement contemplates the extinguishment of all such Claims.

FOUR: The parties acknowledge that they might hereafter discover facts different from, or in addition to, those they now know or believe to be true with respect to a Claim or Claims released herein, and they expressly agree to assume the risk of possible

discovery of additional or different facts, and agree that this Agreement shall be and remain effective, in all respects, regardless of such additional or different discovered facts.

FIVE: You hereby represent and acknowledge that you have not filed any Claim of any kind against the Company or others released in this Agreement. You further hereby expressly agree never to initiate against the Company or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

The Company hereby represents and acknowledges that it has not filed any Claim of any kind against you or others released in this Agreement. The Company further hereby expressly agrees never to initiate against you or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

SIX: You hereby represent and agree that you have not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that you are releasing in this Agreement.

The Company hereby represents and agrees that it has not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that it is releasing in this Agreement.

SEVEN: As a further material inducement to the Company to enter into this Agreement, you hereby agree to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys' fees incurred by Releasees, arising out of any breach of this Agreement by you or the fact that any representation made in this Agreement by you was false when made.

EIGHT: You and the Company represent and acknowledge that, in executing this Agreement, neither is relying upon any representation or statement not set forth in this Agreement or the Severance Agreement.

NINE:

(a) This Agreement shall not in any way be construed as an admission by the Company that it has acted wrongfully with respect to you or any other person, or that you have any rights whatsoever against the Company, and the Company specifically disclaims any liability to or wrongful acts against you or any other person, on the part of itself, its employees or its agents. This Agreement shall not in any way be construed as an admission by you that you have acted wrongfully with respect to the Company, or that you failed to perform your duties or negligently performed or breached your duties, or that the Company had good cause to terminate your employment.

(b) If you are a party or are threatened to be made a party to any proceeding by reason of the fact that you were an officer [or director] of the Company, the Company shall indemnify you against any expenses (including reasonable attorney fees provided that counsel has been approved by the Company prior to retention), judgments, fines, settlements, and other amounts actually or reasonably incurred by you in connection with that proceeding, provided that you acted in good faith and in a manner you reasonably believed to be in the best interest of the Company. The limitations of California Corporations Code Section 317 shall apply to this assurance of indemnification.

(c) You agree to cooperate with the Company and its designated attorneys, representatives, and agents in connection with any actual or threatened judicial, administrative or other legal or equitable proceeding in which the Company is or may be become involved. Upon reasonable notice, you agree to meet with and provide to the Company or its designated attorneys, representatives or agents all information and knowledge you have relating to the subject matter of any such proceeding.

TEN: This Agreement is made and entered into in California. This Agreement shall in all respects be interpreted, enforced and governed by and under the laws of the State of California. Any dispute about the validity, interpretation, effect or alleged violation of this Agreement (an "arbitrable dispute") must be submitted to arbitration in [Los Angeles][San Diego], California. Arbitration shall take place before an experienced employment arbitrator licensed to practice law in such state and selected in accordance with the Model Employment Arbitration Procedures of the American Arbitration Association. Arbitration shall be the exclusive remedy for any arbitrable dispute. The arbitrator in any arbitrable dispute shall not have authority to modify or change the Agreement in any respect. You and the Company shall each be responsible for payment of one-half the amount of the arbitrator's fee(s). Should any party to this Agreement institute any legal action or administrative proceeding against the other with respect to any Claim waived by this Agreement or pursue any arbitrable dispute by any method other than arbitration, the prevailing party shall be entitled to recover from the nonprevailing party all damages, costs, expenses and attorneys' fees incurred as a result of that action. The arbitrator's decision and/or award will be fully enforceable and subject to an entry of judgment by the Superior Court of the State of California for the County of [Los Angeles][San Diego].

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight days after its execution and return. Should you nevertheless attempt to challenge the enforceability of this Agreement as provided in Paragraph TEN or, in violation of that Paragraph, through litigation, as a further limitation on any right to make such a challenge, you shall initially tender to the Company, by certified check delivered to the Company, all monies received pursuant to Section 10(c) of the Employment Agreement, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement and void the Company's obligations under Section 10(c) of the Employment Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled and the Company shall have no obligation under Section 10(c) of the Employment Agreement. In the event the Company does not accept such offer, the Company shall so notify you, and

shall pl ace such monies in an interest-bearing escrow account pending resolution of the dispute between you and the Company as to whether or not this Agreement and the Company's obligations under Section 10(c) of the Employment Agreement shall be set aside and/or otherwise rendered voidable or unenforceable. Additionally, any consulting agreement then in effect between you and the Company shall be immediately rescinded with no requirement of notice.

TWELVE: Any notices required to be given under this Agreement shall be delivered either personally or by first class United States mail, postage prepaid, addressed to the respective parties as follows:

To Company: [TO COME]
Attn: [TO COME]

To You: _____
_____
_____

THIRTEEN: You understand and acknowledge that you have been given a period of 45 days to review and consider this Agreement (as well as statistical data on the persons eligible for similar benefits) before signing it and may use as much of this 45-day period as you wish prior to signing. You are encouraged, at your personal expense, to consult with an attorney before signing this Agreement. You understand and acknowledge that whether or not you do so is your decision. You may revoke this Agreement within seven days of signing it. If you wish to revoke, the Company's Vice President, Human Resources must receive written notice from you no later than the close of business on the seventh day after you have signed the Agreement. If revoked, this Agreement shall not be effective and enforceable and you will not receive payments or benefits under Section 10(c) of the Employment Agreement.

FOURTEEN: This Agreement constitutes the entire agreement of the parties hereto and supersedes any and all other agreements (except the Employment Agreement) with respect to the subject matter of this Agreement, whether written or oral, between you and the Company. All modifications and amendments to this Agreement must be in writing and signed by the parties.

FIFTEEN: Each party agrees, without further consideration, to sign or cause to be signed, and to deliver to the other party, any other documents and to take any other action as may be necessary to fulfill the obligations under this Agreement.

SIXTEEN: If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provisions or application; and to this end the provisions of this Agreement are declared to be severable.

SEVENTEEN: This Agreement may be executed in counterparts.

I have read the foregoing General Release and I accept and agree to the provisions it contains and hereby execute it voluntarily and with full understanding of its consequences. I am aware it includes a release of all known or unknown claims.

DATED: _____

_____

DATED: _____

_____

You acknowledge that you first received this Agreement on [date].

_____

EXHIBIT 10.2

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") made and entered into as of the 18th day of September, 2002 (the "Effective Date"), by and between Sempra Energy (the "Company"), a California corporation, and Donald E. Felsinger (the "Executive");

WHEREAS, the Company and the Executive are parties to that certain Employment Agreement, dated as of October 12, 1996 and amended from time to time (the "Prior Employment Agreement"), pursuant to which the Company currently employs the Executive;

WHEREAS, the Company and the Executive each have determined that it would be to the advantage and best interest of the Company and the Executive to enter into a new employment agreement upon the terms set forth in this Agreement; and

WHEREAS, the Company and the Executive desire to have this Agreement govern the terms of the Executive's employment during the Employment Period (as defined below).

NOW, THEREFORE, IN CONSIDERATION of the mutual premises, covenants and agreements set forth below, it is hereby agreed as follows:

1. Employment and Term.
    a. Employment. The Company agrees to employ the Executive, and the Executive agrees to be employed by the Company, in accordance with the terms and provisions of this Agreement during the term thereof (as described below).
    b. Term. The term of the Executive's employment under this Agreement shall commence on the Effective Date and shall continue until the earlier of the Executive's Mandatory Retirement Age (as defined herein) or the fifth anniversary of the Effective Date; *provided*, *however*, that commencing on the fourth anniversary of the Effective Date (and each anniversary of the Effective Date thereafter), the term of this Agreement shall automatically be extended for one additional year, unless at least ninety (90) days prior to such date, the Company or the Executive shall give written notice to the other party that it or he, as the case may be, does not wish to so extend this Agreement (such term together with any renewal period or periods, being referred to hereinafter collectively as the "Employment Period").
    c. Mandatory Retirement. In no event shall the term of the Executive's employment hereunder extend beyond the end of the month in which the Executive's 65th birthday occurs (the "Mandatory Retirement Age").
2. Duties and Powers of Executive.
    a. Position and Duties. During the Employment Period, the Executive shall serve as Group President of Global Enterprises with such authority, duties and responsibilities as are consistent with the Executive's position as the senior executive officer in charge of directing the overall business, affairs and operations of Global Enterprises, and such other duties and responsibilities, consistent with Executive's position, as may from time to time be reasonably assigned to the Executive by the Chairman of the Board of Directors of the Company (the "Board") or the Chief Executive Officer of the Company acting in good faith. In the Executive's capacity as Group President of Global Enterprises, the Executive shall report to the Chairman of the Board or if the Chairman of the Board does not exist, the Chief Executive Officer of the Company. In addition, in order to facilitate the transition of a new successor Chief Executive Officer of the Company, the Board or the then Chief Executive Officer of the Company may appoint the Executive as Group President of another business division of the Company and assign the Executive such duties and responsibilities as are consistent with such position without violating the terms of this Agreement.
    b. Attention. During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive shall devote full attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive under this Agreement, use the Executive's best efforts to carry out such responsibilities faithfully and efficiently. It shall not be considered a violation of the foregoing for the Executive to serve on corporate, industry, civic or charitable boards or committees, so long as such activities do not interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement.
3. Compensation.

    It is the Board's intention to provide the Executive with compensation opportunities that, in total, are at a level that is consistent with that provided by comparable companies to executive officers of similar levels of responsibility, expertise and corporate and individual performance as determined by the compensation committee of the Board. In this regard, the Executive shall receive the following compensation for his services hereunder to the Company:

    a. Base Salary. During the Employment Period, the Executive's annual base salary ("Annual Base Salary") shall in no event be no less than $610,000 and shall be payable in accordance with the Company's general payroll practices. Subject to Section 4(d)(ii), the Board in its discretion may from time to time direct such upward adjustments in the Executive's Annual Base Salary as the Board deems to be necessary or desirable, including, without limitation, adjustments in order to reflect increases in the cost of living and the Executive's performance. Any increase in Annual Base Salary shall not serve to limit or reduce any

other obligation of the Company under this Agreement. For purposes of Sections 3(b), 4(d)(ii), 5(a)(i), 5(a)(ii), 5(a)(v) and 10(c), reference to Annual Base Salary shall mean the highest Annual Base Salary payable to the Executive at any time during the term of this Agreement.

b. Incentive Compensation. Subject to Section 4(d)(ii), during the Employment Period, the Executive shall participate in annual incentive compensation plans and long-term incentive compensation plans of the Company and, to the extent appropriate, the Company's subsidiaries (which long-term incentive compensation plans may include plans offering stock options, restricted stock and other long-term incentive compensation and all such annual and long-term plans to be hereinafter referred to as the "Incentive Compensation Plans") and will be granted awards thereunder providing him with the opportunity to earn, on a year-by-year basis, annual and long-term incentive compensation (the "Incentive Compensation Awards") at least equal (in terms of target, maximum and minimum awards levels expressed as a percentage of Annual Base Salary) to the Executive's opportunities that were in effect immediately prior to the Effective Date. The target award level opportunities in effect immediately p rior to the Effective Date were 70% of Annual Base Salary for annual incentive awards and 280% of Annual Base Salary for long term incentive awards. Any equity awards granted to the Executive may be granted, at the Executive's election, to trusts established for the benefit of members of the Executive's family.

c. Retirement and Welfare Benefit Plans. In addition to the benefits provided under Section 3(b), during the Employment Period and so long as the Executive is employed by the Company, he shall be eligible to participate in all other savings, retirement and welfare plans, practices, policies and programs applicable generally to employees and/or senior executive officers of the Company and its domestic subsidiaries, at a level and on terms and conditions no less favorable than those available to the Executive immediately prior to the Effective Date, except with respect to any benefits under any plan, practice, policy or program to which the Executive has waived his rights in writing. The Executive shall participate in the Sempra Energy Supplemental Executive Retirement Plan, which permanently adopted and incorporated by reference the San Diego Gas & Electric Supplemental Executive Retirement Plan.

d. Expenses. The Company shall reimburse the Executive for all expenses, including those for travel and entertainment, properly incurred by him in the performance of his duties hereunder in accordance with policies established from time to time by the Board.

e. Fringe Benefits and Perquisites. During the Employment Period and so long as the Executive is employed by the Company, he shall be entitled to receive fringe benefits and perquisites in accordance with the plans, practices, programs and policies of the Company and, to the extent appropriate, the Company's subsidiaries from time to time in effect, commensurate with his position.

f. Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any provision of this Agreement is likely to be interpreted as a personal loan prohibited by the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder (the "Act"), then such provision shall be modified as necessary or appropriate so as to not violate the Act and if this cannot be accomplished, then the Company shall use its reasonable efforts to provide the Executive with similar, but lawful, substitute benefits at a cost to the Company not to significantly exceed the amount the Company would have otherwise paid to provide such benefit(s) to the Executive.

4. Termination of Employment.

a. Death or Disability. The Executive's employment shall terminate upon the Executive's death or, at the election of the Board or the Executive, by reason of Disability (as herein defined) during the Employment Period; *provided, however*, that the Board may not terminate the Executive's employment hereunder by reason of Disability unless (i) at the time of such termination there is no reasonable expectation that the Executive will return to work within the next ninety (90) day period and (ii) such termination is permitted by all applicable disability laws. For purposes of this Agreement, disability ("Disability") shall have the same meaning as set forth in the Company's long-term disability plan or its successor.

b. By the Company for Cause. The Company may terminate the Executive's employment during the Employment Period for Cause (as herein defined). For purposes of this Agreement, "Cause" shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 4(d)) or (ii) the Executive's commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise or one or more significant acts of dishonesty. For purposes of clause (i) of this definition, no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, o r omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company.

c. By the Company without Cause. Notwithstanding any other provision of this Agreement, the Company may terminate the Executive's employment other than by a termination for Cause during the Employment Period, but only upon the affirmative vote of three-fourths (3/4) of the membership of the Board.

d. By the Executive for Good Reason. The Executive may terminate his employment during the Employment Period for Good Reason (as herein defined). For purposes of this Agreement, "Good Reason" shall mean the occurrence without the written consent of the Executive of any one of the following acts by the Company, or failures by the Company to act, unless such act or failure to act is corrected (or denied in the event of clause (ix) below) by the Company within 30 days after the Company receives the Notice of Termination (as hereinafter defined) given in respect thereof:

i. a material diminution in the Executive's title, authority, duties, responsibilities or reporting lines as contemplated by Section 2(a) of this Agreement; *provided*, *however*, that the Executive's appointment as Group President of another business division of the Company pursuant to Section 2(a) shall not constitute Good Reason;
ii. a reduction by the Company in (A) the Executive's Annual Base Salary as in effect on the date hereof or as the same may be increased from time to time or (B) the Executive's aggregate annualized compensation and benefits opportunities, except, in the case of both (A) and (B), for across-the-board reductions similarly affecting all executive officers (both of the Company and of any Person (as hereinafter defined) then in control of the Company) whose compensation is directly determined by the compensation committee of the Board (and the compensation committee of the board of directors of any Person then in control of the Company); *provided that*, the exception for across-the-board reductions shall not apply following a Change in Control (as hereinafter defined);
iii. the relocation of the Executive's principal place of employment to a location away from the Company's headquarters or a relocation of the Company's headquarters to a location further away which is both further away from Executive's residence and more than thirty (30) miles from such headquarters or a substantial increase in the Executive's business travel obligations outside of the Southern California area as of the Effective Date other than any such increase that (A) arises in connection with extraordinary business activities of the Company and (B) is understood not to be part of the Executive's regular duties with the Company;
iv. the failure by the Company to pay to the Executive any portion of the Executive's current compensation and benefits or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;
v. any purported termination of the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 4(f); for purposes of this Agreement, no such purported termination shall be effective;
vi. the failure by the Company to obtain a satisfactory agreement from any successor of the Company requiring such successor to assume and agree to perform the Company's obligations under this Agreement, as contemplated in Section 12;
vii. the failure by the Company to provide the indemnification and D&O insurance protection Section 7 of this Agreement requires it to provide;
viii. the failure by the Company to comply with any material provision of this Agreement; or
ix. the announcement of the Company's intent to take one of the actions or omissions to act, as applicable, described in clauses (i) through (viii) above.

e. Following a Change in Control (as hereinafter defined), the Executive's determination that an act or failure to act constitutes Good Reason shall be presumed to be valid unless such determination is deemed to be unreasonable by an arbitrator. The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

f. Change in Control. Change in Control shall mean the occurrence of any of the following events:
i. Any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by 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
ii. The following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the Effective Date, constitute the Board 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 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 transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of secu rities of the Company (not including in the securities beneficially owned by 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.

"Person" shall have the meaning given in section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act"), 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 stock of the Company, or (v) a person or group as used in Rule 13d-1(b) under the Exchange Act.

"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

Notwithstanding the foregoing, any event or transaction which would otherwise constitute a Change in Control (a "Transaction") shall not constitute a Change in Control for purposes of this Agreement if, in connection with the Transaction, the Executive participates as an equity investor in the acquiring entity or any of its affiliates (the "Acquiror"). For purposes of the preceding sentence, the Executive shall not be deemed to have participated as an equity investor in the Acquiror by virtue of (i) obtaining beneficial ownership of any equity interest in the Acquiror as a result of the grant to the Executive of an incentive compensation award under one or more incentive plans of the Acquiror (including, but not limited to, the conversion in connection with the Transaction of incentive compensation awards of the Company into incentive compensation awards of the Acquiror), on terms and conditions not substantially more generous than those applicable to other executive officers (of eith er the Company or the Acquiror) immediately prior to the Transaction, after taking into account normal differences attributable to job responsibilities, title and the like, (ii) obtaining beneficial ownership of any equity interest in the Acquiror on terms and conditions substantially equivalent to those obtained in the Transaction by all other shareholders of the Company, or (iii) obtaining beneficial ownership of any equity interest in the Acquiror in a manner unrelated to a Transaction.

g. Notice of Termination. During the Employment Period, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 13(b). For purposes of this Agreement, a "Notice of Termination" shall mean a notice that shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-fourths (3/4) of the entire membership of the Board at a meeting of the Board that was called and held no more than ninety (90) days after the date the Board had knowledge of the most recent act or omission giving rise to su ch breach for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board and, if possible with respect to clause (i) of the definition of Cause herein, to cure the breach that was the basis for the Notice of Termination for Cause within a reasonable period) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail. Unless the Board determines otherwise, a Notice of Termination by the Executive alleging a termination for Good Reason must be made within 180 days of the act or failure to act that the Executive alleges to constitute Good Reason.

h. Date of Termination. "Date of Termination," with respect to any purported termination of the Executive's employment during the Employment Period, shall mean the date specified in the Notice of Termination (which, in the case of a termination by the Company, shall not be less than thirty (30) days for reasons other than cause and, in the case of a termination by the Executive, shall not be less than fifteen (15) days (thirty (30) days if the termination is with Good Reason) nor more than sixty (60) days) from the date such Notice of Termination is given.

5. Obligations of the Company Upon Termination.

a. Termination by the Company Other Than for Cause, Death or Disability or by the Executive for Good Reason. During the Employment Period, if the Company shall terminate the Executive's employment (other than for Cause, death or Disability) or the Executive shall terminate his employment for Good Reason (termination in any such case being referred to as "Termination"), the Company shall pay to the Executive the amounts, and provide the Executive with the benefits, described in this Section 5 (hereinafter referred to as the "Severance Payments") and any amounts or benefits described in Section 7

of this Agreement. The amounts specified in this Section 5(a) shall be paid within thirty (30) days after the Date of Termination.

i. Lump Sum Payment. In lieu of any further payments of Annual Base Salary or annual Incentive Compensation Awards to the Executive for periods subsequent to the Date of Termination, the Company shall pay to the Executive a lump sum amount in cash equal to the product of (X) the sum of (A) the Executive's Annual Base Salary and (B) the greater of the Executive's target bonus for the year of termination under the Company's Executive Incentive Plan (or any successor plan) or the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of termination and (Y) the number of years remaining in the Employment Period (including fractional years) minus three (3), but in no event shall the net multiplier be less than one (1), *provided, however*, that in the event of a Termination withi n two (2) years following a Change in Control such net multiplier shall not be less than two (2).

ii. Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid and (C) an amount equal to the target amount payable under any annual Incentive Compensation Awards for the fiscal year that includes the Date of Termination or, if greater, the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of Termination multiplied by a fraction the numerator of which shall be the number of days from the beginning of such fiscal year to and including the Date of Termination and the denominator of which shall be 365, in each case to the extent not theretofore paid. (The amounts specified in clauses (A), (B) and (C) shall be hereinafter referred to as the "Accrued Obligations.").

iii. Pension Supplement. The Company shall pay the Executive's benefits under Section 3.1 of the Sempra Energy Supplemental Executive Retirement Plan (the "SERP") in the form of a lump sum; *provided, however*, that (A) the Company shall provide the Executive with such additional years of age and service credit for purposes of the calculation of retirement benefits under the SERP as if he had remained employed for the remainder of the Employment Period, but in no event less than two (2) years (and if the Executive has not yet then attained age 55 at the time such credit for age and service is given, he will be credited with the additional amount of age credit as if he had attained age 55), and (B) the applicable early retirement factor determined in accordance with Appendix A of the SERP shall be applied to the Executive's age and years of service only after he is credited with the additional age and service described above; and the Executive's termination shall be a "Qualifying Te rmination" as defined in the Split Dollar Life Insurance Agreement entered into between the Executive and the Company.

iv. Accelerated Vesting and Payment of Long-Term Incentive Awards. Notwithstanding the provisions of any applicable equity-based compensation plan or award agreement to the contrary, all equity-based incentive compensation awards (including, without limitation, stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards, section 162(m) awards, and dividend equivalents) held by the Executive under any annual incentive compensation plan or long-term incentive compensation plan maintained by the Company shall immediately vest and become exercisable or payable, as the case may be, as of the Date of Termination, to be exercised or paid, as the case may be, in accordance with the terms of the applicable plan and award agreement, and any restrictions on any such awards shall automatically lapse; *provided, however*, that any stock options granted on or after the Effective Date shall remain outstanding and exercisable until the earlier of (A) the later of sixty months (60) months following the Date of Termination or the period specified in the applicable award agreements or (B) the expiration of the original term of such award (it being understood that all awards granted prior to the Effective Date shall remain outstanding and exercisable for a period that is no less than that provided for in the applicable agreement in effect as of the date of grant). Any such equity-based awards tied to performance criteria shall be assumed to have been achieved at target levels. The Company shall pay to the Executive, with respect to all cash-based, long-term Incentive Compensation Awards (excluding those awards which constitute an equity award as described above) made to the Executive that are outstanding under any long-term Incentive Compensation Plan maintained by the Company or any affiliate an amount equal to the target amount payable under such long-term Incentive Compensation Awards multiplied by a fraction, the numerator of which sha ll be the number of days from the beginning of the award cycle to and including the Date of Termination, and the denominator of which shall be the number of days in the cycle as originally granted.

v. Continuation of Welfare Benefits. For a period of three (3) years or until the Executive is eligible for retiree medical benefits, whichever is longer, immediately following the Date of Termination, the Company shall arrange to provide the Executive and his dependents with life, disability, accident and health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the Date of Termination, *provided, however*, that if the Executive

becomes employed with another employer and is eligible to receive life, disability, accident and health insurance benefits under another employer-provided plan, the benefits under the Company's plans shall be secondary to those provided under such other plan during such applicable period of eligibility, and *further provided, however*, that in the event of a termination following a Change in Control such period shall not be less than the number of years until the Executive reaches normal retirement a ge as defined under the Company's tax-qualified plans. In the event the Executive is ineligible under the terms of such benefit plans to continue to be so covered, in such event, the Company shall provide the Executive with substantially equivalent coverage through other sources or shall provide the Executive with a lump sum payment in such amount that, after all taxes on that amount, shall be equal to the cost to the Executive of providing the Executive such benefit coverage. Following the Date of Termination, the Company shall continue to pay sufficient premiums under the Sempra Energy Executive Life Insurance Plan to provide (1) a death benefit equal to two times the sum of (A) Annual Base Salary plus (B) the average of the three (3) highest bonuses paid under the Company's Executive Incentive Plan (or any predecessor or successor plan) during the preceding ten years ("pre-age 65 benefit"), and (2) a cash value at age 65 sufficient to maintain that insurance in effect thereafter without any fu rther premiums and with a death benefit of one-half the pre-age 65 benefit. All premiums will be grossed up for taxes using the maximum marginal federal and state income tax rates.

vi. Outplacement Services. The Executive shall receive outplacement services suitable to his position for a period of twenty-four (24) months following the Date of Termination (thirty-six (36) months following the Date of Termination in the event of a Termination following a Change in Control), in the aggregate amount not to exceed $50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer.

vii. Financial Planning Services. The Executive shall receive financial planning services for a period of twenty-four (24) months following the Date of Termination (thirty-six (36) months following the Date of Termination in the event of a Termination following a Change in Control), at a level consistent with the benefits provided under the Company's financial planning program for the Executive, as in effect immediately prior to the Date of Termination.

viii. Change in Control. Notwithstanding anything contained herein, if a Change in Control occurs and if, prior to the date of the Change in Control, the Executive's employment is terminated by the Company (other than for Cause, death or Disability), or by the Executive for Good Reason, and if such Termination (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change in Control or (ii) otherwise arose in connection with or in anticipation of the Change in Control, then such Termination shall be treated as a Termination following a Change in Control for purposes of this Agreement (including, without limitation, for purposes of determining the amounts of the Severance Payments under this Section 5).

ix. Deferral of Payments. The Executive shall have the right to elect to defer any lump sum payments received by the Executive pursuant to this Section 5(a) under the terms and conditions of the Company's nonqualified deferred compensation plan.

b. Termination by the Company for Cause or by the Executive Other than for Good Reason. If the Executive's employment shall be terminated for Cause during the Employment Period, or if the Executive terminates employment during the Employment Period other than for Good Reason, the Company shall have no further obligations to the Executive under this Agreement other than the Accrued Obligations and any amounts or benefits described in Section 7 of this Agreement.

c. Termination due to Death or Disability. If the Executive's employment shall terminate by reason of death or Disability, the Company shall pay the Executive or his estate, as the case may be, the Accrued Obligations and, solely in the case of termination by reason of Disability, the Pension Supplement described in Section 5(a)(iv), and any amounts or benefits described in Section 7 of this Agreement. Such payments shall be in addition to those rights and benefits to which the Executive or his estate may be entitled under the relevant Company plans or programs.

6. Certain Additional Payments by the Company.

a. Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise (the "Payment") would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax (collectively, "Excise Tax"), then the Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that, after payment by the Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an a mount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. The Company's obligation to make Gross-Up Payments under this Section 6 shall not be conditioned upon the Executive's termination of employment. For purposes of determining the amount of any Gross-Up Payment, the Executive shall be deemed to pay federal income tax at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the date on which the Gross-Up Payment is calculated for purposes of this

Section 6, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

b. Subject to the provisions of Section 6(c), all determinations required to be made under this Section 6, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm as may be agreed by the Company and the Executive (the "Accounting Firm"); provided, that the Accounting Firm's determination shall be made based upon "substantial authority" within the meaning of Section 6662 of the Code. The Accounting Firm shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 6, shall be paid by the Company to the Executive within 5 days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the "Underpayment"), consistent with the calculations required to be made hereunder. In the event the Company exhausts its remedies pursuant to Section 6(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

c. The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after the Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, the Executive shall:

   i. give the Company any information reasonably requested by the Company relating to such claim,
   ii. take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
   iii. cooperate with the Company in good faith in order effectively to contest such claim, and
   iv. permit the Company to participate in any proceedings relating to such claim;

   provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax, income tax or any other taxes (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 6(c), the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribuna l, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided, however*, that, if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax, income tax or any other taxes (including interest or penalties) imposed with respect to such advance or with respect to any imputed income in connection with such advance; and provided, further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and the Executive shal l be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

d. If, after the receipt by the Executive of a Gross-Up Payment or an amount advanced by the Company pursuant to Section 6(c), the Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 6(c), if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 6(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven

and shall not be required to be repaid and the amount of such advance shall offse t, to the extent thereof, the amount of Gross-Up Payment required to be paid.

e. Notwithstanding any other provision of this Section 6, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of the Executive, all or any portion of any Gross-Up Payment, and the Executive hereby consents to such withholding. If such payment is made by the Company to the Internal Revenue Service or other applicable taxing authority, then the Executive shall not be entitled to payment pursuant to Section 6(b) above.

f. Any other liability for unpaid or unwithheld Excise Taxes shall be borne exclusively by the Company, in accordance with Section 3403 of the Code. The foregoing sentence shall not in any manner relieve the Company of any of its obligations under this Agreement.

7. Nonexclusivity of Rights.

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, plan, program, policy or practice provided by the Company and for which the Executive may qualify (except with respect to any benefit to which the Executive has waived his rights in writing), including without limitation any and all indemnification arrangements in favor of the Executive (whether under agreements or under the Company's charter documents or otherwise), and insurance policies covering the Executive, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement entered into after the Effective Date with the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any benefit, plan, policy, practice or program of, or any contract or agreement entered into with, the Company shall be payable in accordance with such benefit, plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. At all times during the Executive's employment with the Company and thereafter, the Company shall provide the Executive with indemnification and D& O insurance insuring the Executive against insurable events which occur or have occurred while the Executive was a director or executive officer of the Company, on terms and conditions that are at least as generous as that then provided to any other current or former director or executive officer of the Company or any affiliate.

8. Full Settlement; Mitigation.

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, provided that nothing herein shall preclude the Company from separately pursuing recovery from the Executive based on any such claim. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts (including amounts for damages for breach) payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment.

9. Dispute Resolution.

Any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the interpretation of this Agreement or any arrangements relating to this Agreement or contemplated in this Agreement or the breach, termination or invalidity thereof shall be settled by final and binding arbitration administered by JAMS/Endispute in San Diego, California in accordance with the then existing JAMS/Endispute Arbitration Rules and Procedures for Employment Disputes. In the event of such an arbitration proceeding, the Executive and the Company shall select a mutually acceptable neutral arbitrator from among the JAMS/Endispute panel of arbitrators. In the event the Executive and the Company cannot agree on an arbitrator, the Administrator of JAMS/Endispute will appoint an arbitrator. Neither the Executive nor the Company nor the arbitrator shall disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties. Except as provided herein, the Federal Arbitration Act shall govern the interpretation, enforcement and all proceedings. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the state of California, or federal law, or both, as applicable and the arbitrator is without jurisdiction to apply any different substantive law. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof.

10. Executive's Covenants.

a. Confidentiality. The Executive acknowledges that in the course of his employment with the Company, he has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("Proprietary Information") of the Company, its subsidiaries and affiliates; and the Executive agrees that it would be extremely damaging to the Company, its subsidiaries and affiliates if such Proprietary Information were disclosed to a competitor of the Company, its subsidiaries and affiliates or to any other person or corporation. The Executive understands and agrees that all Proprietary Information has been divulged to the Executive in confidence and further understands and agrees to keep all Proprietary Information secret and confidential (except for such information which is or becomes publicly available other than as a result of a breach by the Executive of this provision or information the Executive is required by any governmental , administrative or court order to disclose) without limitation in time. In view of the nature of the Executive's employment and the Proprietary Information the Executive has acquired during the course of such employment, the Executive likewise

agrees that the Company, its subsidiaries and affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that the Company, its subsidiaries and affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to the Company's Senior Vice President, Public Policy (or, if such position is vacant, the Company's Chief Executive Officer, *provided*, that the Company shall not unreasonably classify informati on as Proprietary Information.

b. Non-Solicitation of Employees. The Executive recognizes that he possesses and will possess confidential information about other employees of the Company, its subsidiaries and affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company, its subsidiaries and affiliates. The Executive recognizes that the information he possesses and will possess about these other employees is not generally known, is of substantial value to the Company, its subsidiaries and affiliates in developing their business and in securing and retaining customers, and has been and will be acquired by him because of his business position with the Company, its subsidiaries and affiliates. The Executive agrees that, during the Employment Period and for a period of one (1) year thereafter, he will not, directly or indirectly, solicit or recruit any employee of the Company, its subsidiaries or affiliates for the purpose of being em ployed by him or by any competitor of the Company, its subsidiaries or affiliates on whose behalf he is acting as an agent, representative or employee and that he will not convey any such confidential information or trade secrets about other employees of the Company, its subsidiaries and affiliates to any other person; *provided*, *however*, that it shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of the Company, its subsidiaries or affiliates who has either first contacted the Executive or regarding whose employment the Executive has discussed with and received the written approval of the Company's Vice President, Human Resources (or, if such position is vacant, the Company's Chief Executive Officer), prior to making such solicitation or recruitment. In view of the nature of the Executive's employment with the Company, the Executive likewise agrees that the Company, its subsidiaries and affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that the Company, its subsidiaries and affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them.

c. Release; Lump Sum Payment. In the event the Executive is terminated during the Employment Period by the Company other than for Cause, death or Disability or the Executive shall terminate his employment for Good Reason, if the Executive agrees (i) to the covenants described in subsections (a) and (b) above, (ii) to execute a release (the "Release") of all claims substantially in the form attached hereto as Exhibit A within forty-five days after the applicable Date of Termination and does not revoke such release in accordance with the terms thereof, and (iii) to provide the consulting services described in subsection (d), then in consideration for such covenants, the Company shall pay the Executive a lump sum amount in cash equal to the sum of (x) the Executive's Annual Base Salary, and (y) the greater of the Executive's target bonus for the year of termination under the Company's Executive Incentive Plan (or any successor plan) or the average of the three (3) years' highest gross annu al bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of termination. The amount specified in this Section 10(c) shall be paid as soon as practicable following the Executive's execution of the Release, and the Executive shall have the right to elect to defer such payment under the terms and conditions of the Company's nonqualified deferred compensation plan.

d. Consulting. If the Executive agrees to the covenants described in subsection (c), then the Executive shall have the obligation to provide consulting services to the Company as an independent contractor, commencing on the Date of Termination and ending on the second anniversary of the Date of Termination (the "Consulting Period"). The Executive shall hold himself available at reasonable times and on reasonable notice to render such consulting services as may be so assigned to him by the Company's Board of Directors or its then Chief Executive Officer; *provided*, *however*, that unless the parties otherwise agree, the consulting services rendered by the Executive during the Consulting Period shall not exceed 20 hours each month. The Company agrees to use its best efforts during the Consulting Period to secure the benefit of the Executive's consulting services so as to minimize the interference with the Executive's other activities, including requiring the performance of consulting services at the Company's offices only when such services may not be reasonably performed off-site by the Executive.

11. Legal Fees.

The Company shall pay to the Executive all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Executive in disputing in good faith any issue arising under this Agreement relating to the termination of the Executive's employment or in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement, but in each case only to the extent the arbitrator or court determines that the Executive had a reasonable basis for such claim.

12. Successors.

a. Assignment by Executive. This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and

distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

b. Successors and Assigns of Company. This Agreement shall inure to the benefit of and be binding upon the Company, its successors and assigns. The Company may not assign this Agreement to any person or entity (except for a successor described in subsection (c)) without the Executive's written consent.

c. Assumption. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its businesses and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

13. Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to its principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of such amendment, modification, repeal, waiver, extension or discharge is sought. No person, other than pursuant to a resolution of the Board or a committee thereof, shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto.

b. Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed, in either case, to the Company's headquarters or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

c. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

d. Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

e. No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 4(d) of this Agreement, or the right of the Company to terminate the Executive's employment for Cause pursuant to Section 4(b) of this Agreement shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

f. Entire Agreement. This instrument contains the entire agreement of the Executive, the Company or any predecessor or subsidiary thereof with respect to the subject matter hereof, and all promises, representations, understandings, arrangements and prior agreements are merged herein and superseded hereby including, but not limited to, the Prior Employment Agreement.

g. Legal Fees. The Company agrees to reimburse the Executive for the reasonable attorneys' fees and costs incurred by the Executive in negotiating and documenting this Agreement.

IN WITNESS WHEREOF, the Executive and, pursuant to due authorization from its Board of Directors, the Company have caused this Agreement to be executed as of the day and year first above written.

SEMPRA ENERGY

G. Joyce Rowland
Senior Vice President, Human Resources

Date

-

Donald E. Felsinger

Date

EXHIBIT A

GENERAL RELEASE

This GENERAL RELEASE (the "Agreement"), dated _____, is made by and between _____, a California corporation (the "Company") and _____ ("you" or "your").

WHEREAS, you and the Company have previously entered into that certain Employment Agreement dated September 18, 2002 (the "Employment Agreement"); and

WHEREAS, Section 10(c) of the Employment Agreement provides for the payment of a benefit to you by the Company in consideration for certain covenants, including your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, you and the Company hereby agree as follows:

ONE: Your signing of this Agreement confirms that your employment with the Company shall terminate at the close of business on _____, or earlier upon our mutual agreement.

TWO: As a material inducement for the payment of the benefit under Section 10 of that certain Employment Agreement between you and the Company, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims," shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to you and to the Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, advisors, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives, attorneys and advisors of such parent companies, divisions, subsidiaries and affiliates), and all persons acting by, through, under or in concert with any of them.

(b) The words "Claim" or "Claims" shall refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected, which you or the Company now, in the past or, except as limited by law or regulation such as the Age Discrimination in Employment Act (ADEA), in the future may have, own or hold against any of the Releasees; *provided, however*, that the word "Claim" or "Claims" shall not refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) arising under [*identify severance, employee benefits, stock option, indemnif ication and D&O and other agreements containing duties, rights obligations etc. of either party that are to remain operative*]. Claims released pursuant to this Agreement by you and the Company include, but are not limited to, rights arising out of alleged violations of any contracts, express or implied, any tort, any claim that you failed to perform or negligently performed or breached your duties during employment at the Company, any legal restrictions on the Company's right to terminate employees or any federal, state or other governmental statute, regulation, or ordinance, including, without limitation: (1) Title VII of the Civil Rights Act of 1964 (race, color, religion, sex and national origin discrimination); (2) 42 U.S.C Sec. 1981 (discrimination); (3) 29 U.S.C. Sec. 621-634 (age discrimination); (4) 29 U.S.C. Sec. 206(d)(l) (equal pay); (5) 42 U.S.C. Sec. 12101, et seq. (disability); (6) the California Constitution, Article I, Section 8 (discrimination); (7) the California Fair Employment and Housing Act (discrimination, including race, color, national origin, ancestry, physical handicap, medical condition, marital status, religion, sex or age); (8) California Labor Code Section 1102.1 (sexual orientation discrimination); (9) Executive Order 11246 (race, color, religion, sex and national origin discrimination); (10) Executive Order 11141 (age discrimination); (11) Sec. 503 and 504 of the Rehabilitation Act of 1973 (handicap discrimination); (12) The Worker Adjustment and Retraining Act (WARN Act); (13) the California Labor Code (wages, hours, working conditions, benefits and other matters); (14) the Fair Labor Standards Act (wages, hours, working conditions and other matters); the Federal Employee Polygraph Protection Act (prohibits employer from requiring employee to take polygraph test as condition of employment); and (15) any federal, state or other governmental statute, regulation or ordinance which is similar to any of the statutes described in clauses (1) through (14).

THREE: You and the Company expressly waive and relinquish all rights and benefits afforded by any statute (including but not limited to Section 1542 of the Civil Code of the State of California) which limits the effect of a release with respect to unknown claims. You and the Company do so understanding and acknowledging the significance of the release of unknown claims and the waiver of statutory protection against a release of unknown claims (including but not limited to Section 1542). Section 1542 of the Civil Code of the State of California states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

Thus, notwithstanding, the provisions of Section 1542 or of any similar statute, and for the purpose of implementing a full and complete release and discharge of the Releasees, you and the Company expressly acknowledge that this Agreement is intended to include in its effect, without limitation, all Claims which are known and all Claims which you or the Company do not know or suspect to exist in your or the Company's favor at the time of execution of this Agreement and that this Agreement contemplates the extinguishment of all such Claims.

FOUR: The parties acknowledge that they might hereafter discover facts different from, or in addition to, those they now know or believe to be true with respect to a Claim or Claims released herein, and they expressly agree to assume the risk of possible discovery of additional or different facts, and agree that this Agreement shall be and remain effective, in all respects, regardless of such additional or different discovered facts.

FIVE: You hereby represent and acknowledge that you have not filed any Claim of any kind against the Company or others released in this Agreement. You further hereby expressly agree never to initiate against the Company or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

The Company hereby represents and acknowledges that it has not filed any Claim of any kind against you or others released in this Agreement. The Company further hereby expressly agrees never to initiate against you or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

SIX: You hereby represent and agree that you have not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that you are releasing in this Agreement.

The Company hereby represents and agrees that it has not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that it is releasing in this Agreement.

SEVEN: As a further material inducement to the Company to enter into this Agreement, you hereby agree to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys' fees incurred by Releasees, arising out of any breach of this Agreement by you or the fact that any representation made in this Agreement by you was false when made.

EIGHT: You and the Company represent and acknowledge that, in executing this Agreement, neither is relying upon any representation or statement not set forth in this Agreement or the Severance Agreement.

NINE:

(a) This Agreement shall not in any way be construed as an admission by the Company that it has acted wrongfully with respect to you or any other person, or that you have any rights whatsoever against the Company, and the Company specifically disclaims any liability to or wrongful acts against you or any other person, on the part of itself, its employees or its agents. This Agreement shall not in any way be construed as an admission by you that you have acted wrongfully with respect to the Company, or that you failed to perform your duties or negligently performed or breached your duties, or that the Company had good cause to terminate your employment.

(b) If you are a party or are threatened to be made a party to any proceeding by reason of the fact that you were an officer [or director] of the Company, the Company shall indemnify you against any expenses (including reasonable attorney fees provided that counsel has been approved by the Company prior to retention), judgments, fines, settlements, and other amounts actually or reasonably incurred by you in connection with that proceeding, provided that you acted in good faith and in a manner you reasonably believed to be in the best interest of the Company. The limitations of California Corporations Code Section 317 shall apply to this assurance of indemnification.

(c) You agree to cooperate with the Company and its designated attorneys, representatives, and agents in connection with any actual or threatened judicial, administrative or other legal or equitable proceeding in which the Company is or may be become involved. Upon reasonable notice, you agree to meet with and provide to the Company or its designated attorneys, representatives or agents all information and knowledge you have relating to the subject matter of any such proceeding.

TEN: This Agreement is made and entered into in California. This Agreement shall in all respects be interpreted, enforced and governed by and under the laws of the State of California. Any dispute about the validity, interpretation, effect or alleged violation of this Agreement (an "arbitrable dispute") must be submitted to arbitration in [Los Angeles][San Diego], California. Arbitration shall take place before an experienced employment arbitrator licensed to practice law in such state and selected in accordance with the Model Employment Arbitration Procedures of the American Arbitration Association. Arbitration shall be the exclusive remedy for any arbitrable dispute. The arbitrator in any arbitrable dispute shall not have authority to modify or change the Agreement in any respect. You and the Company shall each be responsible for payment of one-half the amount of the arbitrator's fee(s). Should any party to this Agreement institute any legal action or administrative proceeding against the other with respect to any Claim

waived by this Agreement or pursue any arbitrable dispute by any method other than arbitration, the prevailing party shall be entitled to recover from the nonprevailing party all damages, costs, expenses and attorneys' fees incurred as a result of that action. The arbitrator's decision and/or award will be fully enforceable and subject to an entry of judgment by the Superior Court of the State of California for the County of [Los Angeles][San Diego].

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight days after its execution and return. Should you nevertheless attempt to challenge the enforceability of this Agreement as provided in Paragraph TEN or, in violation of that Paragraph, through litigation, as a further limitation on any right to make such a challenge, you shall initially tender to the Company, by certified check delivered to the Company, all monies received pursuant to Section 10(c) of the Employment Agreement, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement and void the Company's obligations under Section 10(c) of the Employment Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled and the Company shall have no obligation under Section 10(c) of the Employment Agreement. In the event the Company does not accept such offer, the Company shall so notify you, and shall pl ace such monies in an interest-bearing escrow account pending resolution of the dispute between you and the Company as to whether or not this Agreement and the Company's obligations under Section 10(c) of the Employment Agreement shall be set aside and/or otherwise rendered voidable or unenforceable. Additionally, any consulting agreement then in effect between you and the Company shall be immediately rescinded with no requirement of notice.

TWELVE: Any notices required to be given under this Agreement shall be delivered either personally or by first class United States mail, postage prepaid, addressed to the respective parties as follows:

To Company: [TO COME]
Attn: [TO COME]

To You: _____
_____
_____

THIRTEEN: You understand and acknowledge that you have been given a period of 45 days to review and consider this Agreement (as well as statistical data on the persons eligible for similar benefits) before signing it and may use as much of this 45-day period as you wish prior to signing. You are encouraged, at your personal expense, to consult with an attorney before signing this Agreement. You understand and acknowledge that whether or not you do so is your decision. You may revoke this Agreement within seven days of signing it. If you wish to revoke, the Company's Vice President, Human Resources must receive written notice from you no later than the close of business on the seventh day after you have signed the Agreement. If revoked, this Agreement shall not be effective and enforceable and you will not receive payments or benefits under Section 10(c) of the Employment Agreement.

FOURTEEN: This Agreement constitutes the entire agreement of the parties hereto and supersedes any and all other agreements (except the Employment Agreement) with respect to the subject matter of this Agreement, whether written or oral, between you and the Company. All modifications and amendments to this Agreement must be in writing and signed by the parties.

FIFTEEN: Each party agrees, without further consideration, to sign or cause to be signed, and to deliver to the other party, any other documents and to take any other action as may be necessary to fulfill the obligations under this Agreement.

SIXTEEN: If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provisions or application; and to this end the provisions of this Agreement are declared to be severable.

SEVENTEEN: This Agreement may be executed in counterparts.

I have read the foregoing General Release and I accept and agree to the provisions it contains and hereby execute it voluntarily and with full understanding of its consequences. I am aware it includes a release of all known or unknown claims.

DATED: _____

_____

DATED: _____

_____

You acknowledge that you first received this Agreement on [date].

THE SEMPRA ENERGY
DEFERRED COMPENSATION AND EXCESS SAVINGS PLAN

(incorporating draft Amendment Three)

TABLE OF CONTENTS

ARTICLE I. TITLE AND DEFINITIONS *

1.1 Title. *

1.2 Definitions. *

ARTICLE II. PARTICIPATION *

ARTICLE III. CONTRIBUTIONS *

3.1 Elections to Defer Compensation and 401(k) Excess *

3.2 Transfers from Prior Plans. *

3.3 Company Matching Contributions *

3.4 FICA and Other Taxes. *

ARTICLE IV. INVESTMENTS *

4.1 Measurement Funds. *

4.2 Investment Elections. *

4.3 Investment of Transferred Accounts. *

4.4 Compliance with Section 16 of the Exchange Act. *

ARTICLE V. ACCOUNTS *

5.1 Accounts. *

ARTICLE VI. VESTING *

ARTICLE VII. DISTRIBUTIONS *

7.1 Distribution of Accounts. *

7.2 Early Distributions. *

7.3 Hardship Distribution *

7.4 Effect of a Change in Control. *

7.5 Inability to Locate Participant. *

ARTICLE VIII. ADMINISTRATION *

8.1 Committee. *

8.2 Administrator. *

8.3 Committee Action. *

8.4 Powers and Duties of the Committee. *

8.5 Construction and Interpretation. *

8.6 Information. *

8.7 Compensation, Expenses and Indemnity. *

8.8 Quarterly Statements. *

8.9 Disputes. *

ARTICLE IX. MISCELLANEOUS *

9.1 Unsecured General Creditor. *

9.2 Restriction Against Assignment. *

9.3 Withholding. *

9.4 Amendment, Modification, Suspension or Termination. *

9.5 Designation of Beneficiary. *

9.6 Insurance. *

9.7 Governing Law. *

9.8 Receipt of Release. *

9.9 Compliance with Code Section 162(m) *

9.10 Payments on Behalf of Persons Under Incapacity. *

9.11 Limitation of Rights *

9.12 Exempt ERISA Plan *

9.13 Notice *

9.14 Errors and Misstatements *

9.15 Pronouns and Plurality *

9.16 Severability *

9.17 Status *

9.18 Headings. *

Sempra Energy, a California corporation (the "Company"), and its direct and indirect subsidiaries maintain the Sempra Energy Deferred Compensation Plan for Directors, the Sempra Energy Executive Deferred Compensation Plan, the Sempra Energy Deferred Compensation Plan, the Sempra Energy Excess Savings Plan, the Pacific Enterprises Executive Deferred Compensation Plan, the Pacific Enterprises Deferred Compensation Plan for Directors, the Pacific Enterprises Deferred Compensation Plan, the San Diego Gas & Electric Co. deferred compensation agreements and the Enova deferred compensation agreements to provide supplemental retirement income benefits for certain directors and for a select group of management and highly compensated employees.

The Company wishes to merge these plans and agreements in the form of this Sempra Energy Deferred Compensation and Excess Savings Plan (the "Plan") which is designed to provide supplemental retirement income benefits for certain directors and for a select group of management and highly compensated employees through deferrals of salary and incentive compensation and Company matching contributions. This Plan is also designed to provide for benefits that cannot be provided under the Sempra Energy Savings Plan due to the limitations of Code Sections 401(a)(17), 402(g) and 415. This Plan shall be effective as of January 1, 2000.

- **ARTICLE I.**

  TITLE AND DEFINITIONS

  - **1.1 Title**.

    This Plan shall be known as The Sempra Energy Deferred Compensation and Excess Savings Plan.

  - **1.2 Definitions**.

    Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

- (a) "**Account**" or "**Accounts**" shall mean a Participant's Deferral Account, 401(k) Excess Account, Company Matching Account and/or Transferred Account.
- (b) "**Administrator**" shall mean the individuals designated by the Committee (who need not be a member of the Committee) to handle the day-to-day Plan administration. If the Committee does not make such a designation, the Administrator shall be the Senior Vice-President of Human Resources.
- (c) "**Affiliate**" has the meaning ascribed to such term in Rule 12b-2 promulgated under the Exchange Act.
- (d) "**Base Salary**" shall mean a Participant's annual base salary, excluding bonus, incentive and all other remuneration for services rendered to the Company, prior to reduction for any salary contributions to a plan established pursuant to Section 125 of the Code or qualified pursuant to Section 401(k) of the Code.
- (e) "**Beneficial Owner**" has the meaning set forth in Rule 13d-3 under the Exchange Act.
- (f) "**Beneficiary**" or "**Beneficiaries**" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant to receive the benefits specified hereunder in the event of the Participant's death in accordance with Section 9.5.
- (g) "**Board of Directors**" or "**Board**" shall mean the Board of Directors of the Company.
- (h) "**Bonus**" shall mean the annual incentive award earned by a Participant under the Company's short-term incentive plan and other special payments or awards that may be granted by the Company from time to time.
- (i) "**Change in Control**" shall be deemed to have occurred when:

  (1) Any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of Sempra Energy representing twenty percent (20%) or more of the combined voting power of Sempra Energy's then outstanding securities; or

  (2) The following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the Effective Date, constitute the Board 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 Sempra Energy) whose appointment or election by the Board or nomination for election by Sempra Energy'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

  (3) There is consummated a merger or consolidation of Sempra Energy or any direct or indirect subsidiary of Sempra Energy with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of Sempra Energy 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 Sempra Energy or any subsidiary of Sempra Energy, at least sixty percent (60%) of the combined voting power of the securities of Sempra Energy 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 Sempra Energy (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of Sempra Energy (not including in the securities beneficially owned by such Person any securities acquired directly from Sempra Energy or its affiliates other than in connection with the acquisition by Sempra Energy or its affiliates of a business) representing twenty percent (20%) or more of the combined voting power of Sempra Energy's then outstanding securities; or

  (4) The shareholders of Sempra Energy approve a plan of complete liquidation or dissolution of Sempra Energy or there is consummated an agreement for the sale or disposition by Sempra Energy of all or substantially all of Sempra Energy's assets, other than a sale or disposition by Sempra Energy of all or substantially all of Sempra Energy'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 Sempra Energy in substantially the same proportions as their ownership of Sempra Energy immediately prior to such sale.

- (j) "**Code**" shall mean the Internal Revenue Code of 1986, as amended.
- (k) "**Committee**" shall mean the compensation committee of the Board of Directors.
- (l) "**Company**" shall mean Sempra Energy and any successor corporations. Company shall also include each corporation which is a member of a controlled group of corporations (within the meaning of Section 414(b) of the Code) of which Sempra Energy is a component member, if the Board provides that such corporation shall participate in the Plan and such corporation's governing board of directors adopts this Plan.
- (m) "**Company Matching Account**" shall mean the bookkeeping account maintained by the Company for each Participant that is credited with an amount equal to the Company Matching Contribution, if any, debited by amounts equal to all distributions to and withdrawals made by the Participant and/or his Beneficiary and adjusted for investment earnings and losses pursuant to Article V. The Company Matching Account may be further subdivided into sub-accounts, one representing the Company Matching Contribution, if any, related to any deferral of Compensation, and a second representing the Company Matching Contribution, if any, related to any 401(k) Excess contributed to the Plan.
- (n) "**Company Matching Contributions**" shall mean the employer matching contribution made to the Plan on behalf of Participants who make deferrals under Article III.

- (o) "**Compensation**" shall mean Base Salary, Bonus and Dividend Equivalents that the Participant who is an employee is entitled to receive for services rendered to the Company. In addition, for any Participant who is an Executive Officer, Compensation includes (i) SERP Lump Sum, (ii) Restricted Stock Units, (iii) Stock Option Gains and (iv) Severance Payments. Compensation shall mean retainer payments and/or meeting and other fees, received from the Company for services performed by any Participant as a Director.
- (p) "**Deferral Account**" shall mean the bookkeeping account maintained by the Company for each Participant that is credited with amounts equal to the portion of the Participant's Compensation that he elects to defer pursuant to Section 3.1, debited by amounts equal to all distributions to and withdrawals made by the Participant and/or his Beneficiary and adjusted for investment earnings and losses pursuant to Article V. The Deferral Account may be further subdivided into subaccounts as determined by the Committee.
- (q) "**Deferral Election Form**" shall mean the form designated by the Committee for purposes of making deferrals under Section 3.1.
- (r) "**Director**" shall mean an individual who is a non-employee member of the Board.
- (s) "**Disability**" shall mean a "disability" as defined in the Company's long-term disability plan, as then in effect.
- (t) "**Distributable Amount**" shall mean the sum of the vested balance of a Participant's Deferral Account, 401(k) Excess Account, Company Matching Account and Transferred Account.
- (u) "**Dividend Equivalent**" shall mean the phantom dividends relating to post-July 1, 1998 stock option grants under the 1998 Sempra Energy Long-Term Incentive Plan which are eligible for deferral.
- (v) "**Early Distribution**" shall mean an election by a Participant in accordance with Section 7.2 to receive a withdrawal of amounts from his or her Deferral Account, Transferred Account, Company Matching Account and 401(k) Excess Account prior to the time in which such Participant would otherwise be entitled to such amounts.
- (w) "**Effective Date**" shall mean January 1, 2000.
- (x) "**Election Period**" shall mean the period designated by the Committee; provided, however, that such period shall be no less than ten business days.
- (y) "**Eligible Individual**" shall mean those individuals selected by the Committee from (i) those employees of the Company who either (A) are Executive Officers or (B) have Base Salary for a Calendar Year that is at least $120,000, as adjusted by the Committee from time to time and (ii) those Directors who are not employees of the Company. The Committee may, in its sole discretion, select such other individuals to participate in the Plan who do not otherwise meet the foregoing criteria.
- (z) "**ERISA**" shall mean the Employee Retirement Income Security Act of 1974, as amended.
- (aa)"**Exchange Act**" shall mean the Securities Exchange Act of 1934, as amended, and the applicable rules and regulations thereunder.
- (bb)"**Executive Officer**" shall mean an employee of the Company who holds a position as an executive officer in the Company and is eligible to participate in the Sempra Energy Supplemental Executive Retirement Plan or is so designated by the Committee.
- (cc)"**401(k) Excess Account**" shall mean the bookkeeping account maintained by the Company for each Participant that is credited with amounts equal to the Participant's 401(k) Excess that he elects to defer pursuant to Section 3.1, debited by amounts equal to all distributions to and withdrawals made by the Participant and/or his Beneficiary and adjusted for investment earnings and losses pursuant to Article V.
- (dd)"**401(k) Excess**" shall mean the amount, if any, which a Participant may not contribute to the applicable 401(k) Plan by reason of Code Section 401(a)(17) or 415 and the regulations issued thereunder, or which may not be contributed to the applicable 401(k) Plan by reason of the limitations set forth in Code Section 402(g).
- (ee)"**401(k) Plan**" shall mean the Sempra Energy Savings Plan maintained by the Company under Code Section 401(k), as in effect from time to time or as applicable for any Participant, a plan maintained by a direct or indirect subsidiary of the Company under Code Section 401(k).
- (ff)"**Manager**" shall mean an employee of the Company who is an Eligible Individual, other than an Executive Officer or a Director.
- (gg)"**Measurement Fund**" shall mean one or more of the investment funds selected by the Committee pursuant to Section 4.1.
- (hh)"**Moody's Plus Rate**" shall mean the Moody's Rate (as defined below) plus the greater of (i) 10% of the Moody's Corporate Bond Yield Average--Monthly Average Corporates as published by Moody's Investors Service, Inc. (or any successor) or (ii) one percentage point per annum. The Moody's Rate for the month of June means the average of the daily Moody's Corporate Bond Yield Average--Monthly Average Corporates for the month of June.
- (ii)"**Participant**" shall mean any Eligible Individual who becomes a Participant in accordance with Article II and who has not received a complete distribution of the amounts credited to his Account.
- (jj)"**Payroll Date**" shall mean, with respect to any Participant, the date on which he would otherwise be paid Compensation.
- (kk)"**Payment Date**" shall mean the time as soon as practicable after (1) the first day of the month which is at least 30 days after the date of the Participant's Termination or Retirement, or (2) if elected at least one year prior to the Participant's Termination or Retirement, January 1 of a designated year which is no later than January 1 of the fifth year following the year in which the Participant has a Termination or Retirement. Payment dates shall also mean the Scheduled Withdrawal Date elected in accordance with the provisions of Section 7.1(b).
- (ll)"**Person**" means any person, entity or "group" within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, except that such term shall not include (i) the Company or any of its Affiliates, (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 Sempra Energy in substantially the same proportions as their ownership of stock of Sempra Energy, or (v) a person or group as used in Rule 13d-1(b) under the Exchange Act.

- (mm)"**Plan**" shall mean The Sempra Energy Deferred Compensation and Excess Savings Plan set forth herein, as amended from time to time.
- (nn)"**Plan Year**" shall mean the 12 consecutive month period beginning on each January 1 and ending on each December 31.
- (oo)"**Prior Plans**" shall mean the Sempra Energy Deferred Compensation Plan for Directors, the Sempra Energy Executive Deferred Compensation Plan, the Sempra Energy Deferred Compensation Plan, the Sempra Energy Excess Savings Plan, the Pacific Enterprises Executive Deferred Compensation Plan, the Pacific Enterprises Deferred Compensation Plan for Directors, the Pacific Enterprises Deferred Compensation Plan, the San Diego Gas & Electric Co. deferred compensation agreements and the Enova deferred compensation agreements designed to provide supplemental retirement income benefits for any director or select group of management and highly compensated employees of the Company or its direct and indirect subsidiaries.
- (pp)"**Prior Rate**" shall mean the rate of investment return established under the applicable Prior Plan, subject to the terms of such Prior Plan.
- (qq)"**Restricted Stock Units**" shall mean phantom shares of restricted stock granted to Executive Officers under the 1998 Sempra Energy Long Term Incentive Plan.
- (rr)"**Retirement**" shall mean, for a Participant who is an employee of the Company, a Participant's voluntary retirement from employment with the Company on or after age 55 and 5 years of employment with the Company in accordance with the Company's retirement policies as then in effect. Retirement shall mean, for a Participant who is a Director, ceasing to be a Director for any reason other than for death or Disability. If a Participant is both an employee of the Company and a Director, Retirement shall occur only after he resigns from both positions.
- (ss)"**Rule 16b-3**" shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended from time to time.
- (tt)"**Scheduled Withdrawal Date**" shall be in January in the year elected by the Participant for an in-service withdrawal of all amounts of Compensation or 401(k) Excess deferred in a given Plan Year, but excluding earnings and losses attributable thereto, as set forth on the election forms for such Plan Year.
- (uu)"**Sempra Energy Stock Fund**" shall mean the Measurement Fund in which investment earnings and losses parallel the investment return on the common stock of the Company.
- (vv)"**SERP Lump Sum**" shall mean the lump sum retirement benefit that would be payable to an Executive Officer who is a Plan Participant under either the Sempra Energy Supplemental Executive Retirement Plan or the Sempra Energy Excess Cash Balance Plan.
- (ww)"**Severance Payment"** shall mean any severance payments payable to a Participant under an executive employment agreement or severance agreement with the Company.
- (xx)"**Stock Option Gain**" shall mean the profit shares derived from an eligible exercise of stock options granted to Executive Officers under the 1998 Sempra Energy Long Term Incentive Plan. To qualify as an eligible exercise, the Participant must pay the option exercise price by tendering or attesting to the ownership of shares of Sempra Energy common stock that have been owned outright, without restrictions, for at least six months.
- (yy)"**Termination**" shall mean for any Participant who is an employee, ceasing to be an employee of the Company for reasons other than death, Disability or Retirement. For any Participant who is a Director, "Termination" shall mean ceasing to be a Director for any reason, including death, Disability or Retirement. If a Participant is both an employee of the Company and a Director, he shall not have a Termination until he resigns from both positions.
- (zz)"**Transferred Account**" shall mean the bookkeeping account maintained by the Company for each Participant that is credited with amounts which were transferred from a Prior Plan, debited by amounts equal to all distributions and withdrawals made to the Participant or his Beneficiary and adjusted for investment earnings and losses pursuant to Article V.
- (aaa)"**Valuation Date**", with respect to the Measurement Funds that are available under the 401(k) Plan, shall have the same meaning as under the 401(k) Plan. For purposes of the Moody's Plus Rate, "Valuation Date" shall mean the last day of the calendar month . For purposes of the Prior Rate, "Valuation Date" shall have the same meaning it has under the applicable Prior Plan.

- **ARTICLE II.**

  PARTICIPATION

  An Eligible Individual shall become a Participant in the Plan by (1) electing to make deferrals in accordance with Section 3.1 and (2) filing such other forms as the Committee may reasonably require for participation hereunder. Additionally, in order to defer 401(k) Excess, the Eligible Individual must be making 401(k) contributions to the 401(k) Plan at the rate of no less than 6% of compensation (as defined in the 401(k) Plan) for the year. An Eligible Individual who completes the requirements of the preceding sentences shall commence participation in this Plan as of the first Payroll Date with respect to which Compensation is deferred.

- **ARTICLE III.**

  CONTRIBUTIONS

- 3.1 Elections to Defer Compensation and 401(k) Excess

  - General Rule. Each Participant may defer Compensation and/or 401(k) Excess by filing with the Administrator a Deferral Election Form that conforms to the requirements of this Section 3.1, no later than the last day of the applicable Election Period. The Committee may permit an Eligible Individual who first becomes eligible to participate in the Plan during a Plan Year to have his first Election Period during such Plan Year. An election to defer Compensation must be filed during the Election Period prior to the effective date of such election and shall be effective for Compensation and/or 401(k) Excess earned during periods beginning after the effective date of such election, unless modified or suspended pursuant to Section 3.1(e).

  - Special Rules. Notwithstanding the above, the following restrictions apply to deferrals of certain elements of Compensation.

    (1) Severance. In order to defer Severance Payments, an eligible Participant must file the appropriate Deferral Election Form on or before the effective date of his executive employment agreement or severance agreement, as applicable, that provides for the Severance Payments to the Participant; provided, however, that if such agreement is already in effect as of September 10, 2002, then the Participant must file the Deferral Election Form within the next Election Period following September 10, 2002 in order to defer any Severance Payments that may become payable following such deferral election.

    (2) Restricted Stock Units. In order to defer Restricted Stock Units, an eligible Participant must file the appropriate Deferral Election Form at least twelve months prior to the date such Restricted Stock Units would vest under the Sempra Energy Long Term Incentive Plan.

    (3) Stock Option Gains. In order to defer Stock Option Gains, an eligible Participant must file the appropriate Deferral Election Form at least twelve months prior to the date the Participant exercises the stock option under the Sempra Energy Long Term Incentive Plan.

    (4) SERP Lump Sum. In order to defer a SERP Lump Sum, an eligible Participant must file the appropriate Deferral Election Form at least twelve months prior to the date the SERP Lump Sum would otherwise be payable to the Participant; provided, however, that a Participant who participates in the SERP on September 10, 2002 must file the Deferral Election Form within the next Election Period following September 10, 2002 in order to defer the SERP Lump Sum that shall or may become payable within twelve months following such deferral election.

  - Deferral Amounts. The amount of Compensation and/or 401(k) Excess which a Participant may elect to defer is such Compensation and/or 401(k) Excess earned on or after the time at which the Participant elects to defer each Plan Year in accordance with Section 3.1(a) and (b). The applicable limitations for any Participant shall be determined based on his classification by the Committee.

    (1) Each Participant who is a Manager shall be permitted to defer (A) from 5% to 50% of Base Salary and (B) from 5% to 100% of his Bonus and Dividend Equivalents.

    (2) Each Participant who is an Executive Officer shall be permitted to defer (A) from 10% to 100% of Base Salary and (B) from 10% to 100% of his Bonus, Dividend Equivalents, Restricted Stock Units, Stock Option Gains, Severance Payments and SERP Lump Sum.

    (3) Each Participant who is a Director shall be permitted to defer from 10% to 100% of his Compensation.

    (4) Each Participant who participates in the 401(k) Plan and makes 401(k) contributions at a rate of 6% of compensation (as defined in the 401(k) Plan) per year shall be deemed to make the same election under this Plan that he has made under the applicable 401(k) Plan unless a contrary election is made under the Plan.

    Notwithstanding the limitations established above, the total amount deferred by a Participant may be limited in any calendar year, if necessary, to satisfy the Participant's income and employment tax withholding obligations (including Social Security, unemployment and Medicare), and the Participant's employee benefit plan contribution requirements, as determined in the sole and absolute discretion of the Committee. If permitted by the Committee, the Participant may make deferrals with respect to any designated portion of his Compensation (such as meeting fees, for example).

  - Ordering Rule. If a Participant elects to defer both Compensation and 401(k) Excess, the Compensation deferrals shall be deducted from the Participant's compensation and contributed to the Plan before any 401(k) Excess deferrals.

  - Duration of Deferral Election.

(1) Except as provided in this Section 3.1(e)(1), if permitted by the Administrator, a Participant may modify or suspend his election to defer Compensation and/or 401(k) Excess during a Plan Year only in the event that (A) the Participant has a change in marital status, (B) the Participant has a change in the number of his dependents (as defined under Code Section 152(a)) or (C) the Participant or his spouse has a change in employment status (as determined by the Administrator). Such modification or suspension shall be made by filing such an election during the Election Period immediately prior to the date such modification or suspension is to be effective. Notwithstanding the above, all deferral elections with respect to a SERP Lump Sum and Severance Payments may be modified or suspended at the discretion of the Participant; provided, however, that if any such deferral election is filed by a Participant within the one year period ending on the date of the Participant's Termination or Retireme nt, other than a Participant's initial election filed with the Administrator in accordance with Section 3.1(b)(1) or 3.1(b)(4), as applicable, such deferral election shall be of no force and effect; provided, further, that if a Participant has timely filed more than one election at least twelve months prior to the date of the Participant's Termination or Retirement, the most recent such election shall govern with respect to a SERP Lump Sum and Severance Payments, as applicable, and all prior elections shall be superseded and shall be of no force or effect.

(2) A Participant's election to defer all or any portion of his SERP Lump Sum shall automatically become void in the event the Participant dies or becomes disabled while employed by the Company.

(3) A Participant's election to defer 401(k) Excess shall automatically be suspended for the remainder of the Plan Year if the Participant's election under the 401(k) Plan falls below 6% of his compensation (as defined under the 401(k) Plan) per year.

(4) Except as provided in Section 3.1(b), a Participant must file a new election for each subsequent Plan Year during the Election Period immediately prior to the next Plan Year, which election shall be effective on the first day of the next following Plan Year. In the event a Participant fails to timely file an election for the next Plan Year, he should be deemed to have elected not to have deferred any Compensation and/or 401(k) Excess for any relevant period.

- Elections. Subject to the limitations of subsection (b), any Eligible Individual who does not elect to defer Compensation and/or 401(k) Excess during his Election Period may subsequently become a Participant. Subject to the limitations of subsection (b), any Eligible Individual who has terminated a prior deferral election may elect to again defer Compensation and/or 401(k) Excess by filing a Deferral Election Form during a subsequent Election Period.

- Termination of Participation and/or Deferrals. If the Committee determines in good faith that a Participant no longer qualifies as a Director or a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion and only for purposes of preserving the Plan's exemption from Title I of ERISA, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the balance of the Participant's Accounts and terminate the Participant's participation in the Plan.

- 3.2 Transfers from Prior Plans.

All amounts credited to this Plan as a result of the merger of the Prior Plans shall be credited to Participants' Transferred Accounts under this Plan. Each Participant is always 100% vested in his Transferred Account at all times. No additional amounts may be contributed to a Participant's Transferred Account other than investment earnings. Any amounts so transferred to a Participant's Transferred Account shall be subject to the terms of this Plan for all purposes, except as provided in Section 4.3 and Section 7.1(a)(7).

- 3.3 Company Matching Contributions

- The Company shall make a Company Matching Contribution on behalf of select Participants who make deferrals under Article III in an amount equal to

(1) the product of (A) the rate of the matching contribution under the 401(k) Plan in which the Participant participates and (B) the sum of the Participant's Base Salary and Bonus,

less

(2) the amount credited to the Participant's matching contribution account under the 401(k) Plan for that Plan Year.

Notwithstanding the above, the Company reserves the right to change the Company Matching Contribution in its sole discretion.

- Pursuant to the Committee's procedures, for each Plan Year each Participant's Company Matching Account shall be credited with an amount described in subsection (a) above, if any.

- 3.4 FICA and Other Taxes.

  - Annual Deferral Amounts. For each Plan Year in which a Participant who is an employee makes a deferral under Section 3.1, the Company shall withhold from that portion of the Participant's Compensation that is not being deferred, in a manner determined by the Company, the Participant's share of FICA and other employment taxes on such amount. If necessary, the Committee may reduce the Participant's deferrals under Section 3.1 or make deductions from his Deferral Account in order to comply with this Section.

  - Company Matching Amounts. For each Plan Year in which a Participant is credited with a contribution to his or her Company Matching Account under Section 3.3, the Company shall withhold from the Participant's Compensation that is not deferred, in a manner determined by the Company, the Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the Participant's Company Matching Account in order to comply with this Section.

- **ARTICLE IV.**

  INVESTMENTS

  - 4.1 Measurement Funds.

    - In the manner designated by the Committee, Participants may elect one or more Measurement Funds to be used to determine the additional amounts to be credited to their Accounts. Although the Participant may designate the Measurement Funds, the Committee shall not be bound by such designation; provided, however, that any substitute Measurement Funds designated by the Committee for a Participant must provide the Participant with an investment opportunity comparable to the original Measurement Funds designated by the Participant. The Committee shall select from time to time, in its sole discretion, the Measurement Funds to be available under the Plan; provided, however, that such Measurement Funds shall be the same as the investment funds which are available from time to time under the 401(k) Plan, except to the extent prohibited by law.

    - No Actual Investment. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his Accounts thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Accounts shall not be considered or construed in any manner as an actual investment of his Accounts in any such Measurement Fund. In the event that the Company or the trustee, in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Accounts shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company. The Participant shall at all times remain an unsecured creditor of the Company.

  - 4.2 Investment Elections.

    - Executive Officers and Director Participants.

      - (1) Deferral, 401(k) Excess and Transferred Accounts. Except as provided in Sections 4.2(a)(2) and 4.3, Participants who are either Executive Officers or Directors may designate how their Deferral, 401(k) Excess and Transferred Accounts shall be deemed to be invested under the Plan.

        - (A) Such Participants may make separate investment elections for (I) their future deferrals of Compensation and 401(k) Excess as well as transfers under Section 3.2 and (II) the existing balances of their Deferral, 401(k) Excess and Transferred Accounts .

        - (B) Such Participants may make and change their investment elections by choosing from the Measurement Funds designated by the Committee in accordance with the procedures established by the Committee.

        - (C) Except as otherwise designated by the Committee, the available Measurement Funds under this Section 4.2(a)(1) shall be the investment funds under the 401(k) Plan (excluding the Stable Value

Fund and any brokerage account option). Additionally, for the Deferral Account only, there shall also be a Measurement Fund based on the Moody's Plus Rate.

- (D) If a Participant fails to elect a Measurement Fund under this Section, he shall be deemed to have elected the default Measurement Fund (as designated by the Committee) for all of his Accounts.

- (2) Company Matching Account and Certain Deferral Subaccounts. Participants may not direct the investment of their Company Matching Account, the Restricted Stock Unit and the Stock Option Gain subaccounts of the Deferral Account, the amounts in which shall be deemed to be invested in the Sempra Energy Stock Fund.

- b. Manager Participants.

(1) 401(k) Excess Accounts. Except as provided in Section 4.3, Participants who are Managers may designate how their 401(k) Excess Accounts shall be deemed to be invested under the Plan.

(A) Manager Participants may make separate investment elections for (I) their future deferrals of 401(k) Excess and (II) the existing balances of their 401(k) Excess Accounts.

- (B) Participants may make and change their investment elections by choosing from the Measurement Funds designated by the Committee in accordance with the procedures established by the Committee.

- (C) Except as otherwise designated by the Committee, the available Measurement Funds under this Section 4.2(b)(1) for the 401(k) Excess Accounts shall be the investment funds under the 401(k) Plan (excluding the Stable Value Fund and any brokerage account option).

- (D) If a Participant fails to elect a Measurement Fund under this Section, he shall be deemed to have elected the default Measurement Fund (as designated by the Committee) for his 401(k) Excess Account.

- (2) Deferral Account. Any Participant who is a Manager shall have his Deferral Account invested in the Measurement Fund based on the Moody's Plus Rate, except as otherwise permitted by the Committee.

- (3) Company Matching Account. Participants may not direct the investment of their Company Matching Account which shall be invested in the Sempra Energy Stock Fund.

- c. Participants who have had a Termination but not yet commenced distributions under Article VII or Participants or Beneficiaries who are receiving installment payments may continue to make investment elections pursuant to subsection (a) and (b) above, as applicable, except as otherwise determined by the Committee.

- 4.3 Investment of Transferred Accounts.

- Each Participant's Transferred Account balance shall be treated as invested in a Measurement Fund with a rate of investment return based solely on the Prior Rate, except as provided in subsection (b).

- In accordance with the procedures established by the Committee, once each calendar quarter an Executive Officer Participant or a Director Participant may elect to transfer a designated percentage of the balance of his Transferred Account to new Measurement Funds, as provided in Section 4.2. As of the effective date of such an election, such designated percentage of the balance of his Transferred Account may be allocated to the Participant's other Accounts in accordance with the type of contributions with which it is credited (i.e., pre-tax deferrals shall be credited to the Participant's Deferral Account). Such portion of the Transferred Account shall cease to be credited with investment returns at the Prior Rate and may not be subsequently invested at the Prior Rate.

- 4.4 Compliance with Section 16 of the Exchange Act.

- Any Participant or Beneficiary who is subject to Section 16 of the Exchange Act shall have his Measurement Fund elections under the Plan subject to the requirements of the Exchange Act, as interpreted by the Committee. Any such Participant or Beneficiary who elects to have any portion of his Deferral, 401(k) Excess or Transferred Accounts, his future deferrals (pursuant to Section 3.1) or future transfers (pursuant to Section 3.2) either (i) invested in the Sempra Energy Stock Fund or (ii) transferred from the Sempra Energy Stock Fund to another available Measurement Fund under the Plan may not make an election with the opposite effect under this Plan or any other Company-sponsored plan until six months and one day following the original election.

- Notwithstanding any other provision of the Plan or any rule, instruction, election form or other form, the Plan and any such rule, instruction or form shall be subject to any additional conditions or limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, such Plan provision, rule, instruction or form shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

- **ARTICLE V.**

  ACCOUNTS

  - 5.1 Accounts.
    - The Committee shall establish and maintain a Deferral Account, 401(k) Excess Account, Transferred Account and Company Matching Account for each Participant under the Plan. Each Participant's Accounts shall be further divided into separate subaccounts ("investment fund subaccounts"), each of which corresponds to a Measurement Fund elected by the Participant pursuant to Section 4.2. In addition, Participants' Deferral Accounts may be further divided into subaccounts consisting of deferred Restricted Stock Units and deferred Stock Option Gains.
    - The performance of each elected Measurement Fund (either positive or negative) shall be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Accounts shall be credited or debited on each Valuation Date based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee in its sole discretion, as though (i) a Participant's Accounts were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such period, as of the close of business on the first business day of such period, at the closing price on such date; (ii) the portion of the Participant's Compensation that was actually deferred pursuant to Section 3.1 during any period were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such period, no later than the close of business on the first business day after the day on which such amounts are actually deferred from the Participant's Compensation, at the closing price on such date; and (iii) any withdrawal or distribution made to a Participant that decreases such Participant's Accounts ceased being invested in the Measurement Fund(s), in the percentages applicable to such period, no earlier than one business day prior to the distribution, at the closing price on such date. The Participant's Company Matching Contribution shall be credited to his Company Matching Account for purposes of this Section in the manner determined by the Committee.

- **ARTICLE VI.**

  VESTING

  Each Participant shall be 100% vested in his Deferral Account, 401(k) Excess Account, Matching Account and Transferred Account at all times.

- **ARTICLE VII.**

  DISTRIBUTIONS

  - 7.1 Distribution of Accounts.

    - Distribution at Termination, Disability or Retirement.

      (1) Normal Form. Except as provided in subsection 7.1(a)(2), subsection 7.1(a)(7) or Section 7.4, upon the Termination, Disability or Retirement of the Participant, the Distributable Amount shall be paid to the Participant in substantially equal annual installments over 10 years beginning on the Participant's Payment Date.

      (2) Optional Forms. Instead of receiving his Distributable Amount as described at Section 7.1(a)(1), the Participant may elect one of the following optional forms of payment (on the form provided by Company) at the time of his deferral election:

      - annual installments (calculated as set forth at subsection 7.1(a)(6)) over 5 years beginning on the Participant's Payment Date,
      - annual installments (calculated as set forth at subsection 7.1(a)(6)) over 15 years beginning on the Participant's Payment Date, or
      - a lump sum.

      A Participant may change his election with respect to the frequency of payment, provided such change in the frequency of payment occurs at least one year prior to the Participant's Termination or Retirement.

(3) Small Accounts. Notwithstanding any provision to the contrary, in the event the Distributable Amount is equal to or less than $25,000, such Distributable Amount shall be distributed to the Participant (or his Beneficiary, as applicable) in a lump sum.

(4) Investment Adjustments. The Participant's Accounts shall continue to be adjusted for investment earnings and losses pursuant to Section 4.2 and Section 4.3 of the Plan until all amounts credited to his Accounts under the Plan have been distributed.

(5) Restricted Stock Units and Stock Option Gains. The portion of the Distributable Amount attributable to amounts held in the Restricted Stock Units and Stock Option Gains subaccounts of the Deferral Account shall be paid in shares of Sempra Energy common stock.

(6) Calculating Installments. All installment payments made under the Plan shall be determined in accordance with the annual fractional payment method, calculated as follows: the balance of the Participant's Accounts shall be calculated as of the close of business on the last business day of the year. The annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects 10 year installments the first payment shall be 1/10 of the balance of his Accounts calculated as described in this definition. The following year, the payment shall be 1/9 of the balance of the Participant's Accounts, calculated as described in this definition. Each annual installment shall be paid on or as soon as practicable after the last business day of the applicable year.

(7) Distribution of Transferred Accounts. Until a Participant so elects, his Transferred Account shall be subject to his most recent form of distribution election in effect under the applicable Prior Plan. However, if the Participant elects to apply his distribution election in effect under this Plan to the balance of his Transferred Account, then any prior distribution election under the Prior Plan shall automatically be permanently revoked.

- Distribution on a Scheduled Withdrawal Date.

  (1) In the case of a Participant who has elected a Scheduled Withdrawal Date for a distribution to be made while still in the employ of the Company or while still a Director, such Participant shall receive his or her deferrals of Compensation and 401(k) Excess (but excluding any investment earnings on such amounts) (the "Withdrawal Amount") as shall have been elected by the Participant to be subject to the Scheduled Withdrawal Date. A Participant's Scheduled Withdrawal Date with respect to amounts of Compensation and/or 401(k) Excess deferred in a given Plan Year must be at least three years from the last day of the Plan Year for which such deferrals are made.

  (2) The Withdrawal Amount shall be paid in a lump sum in cash and, solely to the extent such Withdrawal Amount consists of amounts from the Restricted Stock Unit and Stock Option Gains subaccounts of the Deferral Account, in shares of Sempra Energy common stock.

  (3) A Participant may extend the Scheduled Withdrawal Date for the Withdrawal Amount for any Plan Year, provided such extension occurs at least one year before the Scheduled Withdrawal Date and is for a period of not less than five years from the Scheduled Withdrawal Date. The Participant shall have the right to modify any Scheduled Withdrawal Date only once, without the consent of the Committee, by submitting a written notice of such modification to the Committee at least one year in advance of the originally elected Scheduled Withdrawal Date. A Participant who has modified a Scheduled Withdrawal Date, may again once further modify the Scheduled Withdrawal Date, but only with the consent of the Committee.

  (4) In the event of Participant's Termination, Disability or Retirement prior to a Scheduled Withdrawal Date, the Participant's entire Withdrawal Amount shall be paid in accordance with the Participant's election under Section 7.1(a). In the event of a Participant's death prior to a Scheduled Withdrawal Date, the Participant's entire Withdrawal Amount shall be paid as soon as practicable after the Termination in a lump sum.

- Distribution upon Death. In the event a Participant dies before he has begun receiving distributions under Section 7.1(a), his Accounts shall be paid to his Beneficiary in the same manner elected by the Participant. In the event a Participant dies after he has begun receiving distributions under Section 7.1(a) with a remaining balance in his Accounts, the balance shall continue to be paid to his Beneficiary in the same manner. Notwithstanding the above, the Committee may, in its sole discretion, permit the Beneficiary to receive an immediate lump sum payment of the Participant's Accounts reduced by a penalty of 10% of the balance of the Accounts. The penalty amount shall be permanently forfeited and the Company shall have no obligation to the Beneficiary with respect to such forfeited amount.

- Other Distribution. Independent of any termination of this Plan, if the Internal Revenue Service makes a final determination that amounts under this Plan are immediately taxable to any Participant or Beneficiary, the Committee has the discretion to accelerate distributions under the Plan to such Participants or Beneficiaries.

- 7.2 Early Distributions.

A Participant shall be permitted to elect an Early Distribution from his or her Deferral Account, 401(k) Excess Account and Transferred Account prior to the Payment Date, whether or not he has had a Termination, Disability or Retirement, subject to the following restrictions:

- The election to take an Early Distribution shall be made by filing a form provided by and filed with the Committee prior to the end of any calendar month.
- The amount of the Early Distribution shall in all cases be an amount not less than $10,000.
- The amount described in subsection (b) above shall be paid in a single lump sum in cash and, solely to the extent such Early Distribution consists of amounts from the Restricted Stock Unit and Stock Option Gains subaccounts of the Deferral Account, in shares of Sempra Energy common stock as soon as practicable after the end of the calendar month in which the Early Distribution election is made.
- If a Participant requests an Early Distribution, 10% of the gross amount to be distributed shall be permanently forfeited and the Company shall have no obligation to the Participant or his Beneficiary with respect to such forfeited amount.
- If a Participant receives an Early Distribution the Participant shall be ineligible to contribute deferrals to the Plan for the remainder of the Plan Year and for the next following Plan Year.

- 7.3 Hardship Distribution

A Participant shall be permitted to elect a Hardship Distribution of all or a portion of his Accounts under the Plan prior to the Payment Date, subject to the following restrictions:

- The election to take a Hardship Distribution shall be made by filing the form provided by the Committee before the date established by the Committee.
- The Committee shall have made a determination in its sole discretion that the requested distribution constitutes a Hardship Distribution in accordance with subsection (d).
- The amount determined by the Committee as a Hardship Distribution shall be paid in a single lump sum in cash and, solely to the extent such Hardship Distribution consists of amounts from the Restricted Stock Unit and Stock Option Gains subaccounts of the Deferral Account, in shares of Sempra Energy common stock as soon as practicable after the end of the calendar month in which the Hardship Distribution election is made and approved by the Committee.
- If a Participant receives a Hardship Distribution, the Participant shall be ineligible to contribute deferrals to the Plan for the balance of the Plan Year and the following Plan Year. "Hardship Distribution" shall mean a severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or of his or her dependent (as defined in Section 152(a) of the Code), (ii) loss of a Participant's property due to casualty, or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that would constitute an unforeseeable emergency shall depend upon the facts of each case, but, in any case, a Hardship Distribution may not be made to the extent that such hardship is or may be relieved (A) through reimbursement or compensation by insurance or otherwise, (B) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship or (C) by cessation of deferrals under this Plan.

- 7.4 Effect of a Change in Control.

- In the event there is a Change in Control, the person who is the chief executive officer (or, if not so identified, the Company's highest ranking officer) shall name a third-party fiduciary as the sole member of the Committee immediately prior to such Change in Control. The appointed fiduciary, in its sole discretion, may permit immediate distributions. If permitted by the appointed fiduciary, a Participant who has a Termination within 24 months of the effective date of the Change in Control may elect one of the optional forms of distribution as provided in Section 7.1(a)(2).
- Upon and after the occurrence of a Change in Control, the Company must (i) pay all reasonable administrative fees and expenses of the appointed fiduciary, (ii) indemnify the appointed fiduciary against any costs, expenses and liabilities including, without limitation, attorney's fees and expenses arising in connection with the appointed fiduciary's duties hereunder, other than with respect to matters resulting from the gross negligence of the appointed fiduciary or its agents or employees and (iii) timely provide the appointed fiduciary with all necessary information related to the Plan, the Participants and Beneficiaries.
- Notwithstanding Section 9.4, in the event there is a Change in Control no amendment may be made to this Plan except as approved by the third-party fiduciary. Upon a Change in Control, assets shall be placed in a rabbi trust in an amount which shall equal the full accrued liability under this Plan as determined by Towers Perrin, or a successor actuarial firm.

- 7.5 Inability to Locate Participant.

In the event that the Committee is unable to locate a Participant or Beneficiary within two years following the required Payment Date, the amount allocated to the Participant's Accounts shall be forfeited. If, after such forfeiture, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings from the date of forfeiture, subject to applicable escheat laws.

- **ARTICLE VIII.**

  ADMINISTRATION

  - 8.1 Committee.

    The Committee shall administer the Plan in accordance with this Article.

  - 8.2 Administrator.

    The Administrator, unless restricted by the Committee, shall exercise the powers under Sections 8.4 and 8.5 except when the exercise of such authority would materially affect the cost of the Plan to the Company or materially increase benefits to Participants.

  - 8.3 Committee Action.

    The Committee shall act at meetings by affirmative vote of a majority of the members of the Committee. Any action permitted to be taken at a meeting may be taken without a meeting if, prior to such action, a written consent to the action is signed by all members of the Committee and such written consent is filed with the minutes of the proceedings of the Committee. A member of the Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The chairman or any other member or members of the Committee designated by the chairman may execute any certificate or other written direction of behalf of the Committee.

  - 8.4 Powers and Duties of the Committee.

    - The Committee, on behalf of the Participants and their Beneficiaries, shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes as set forth herein, including, but not by way of limitation, the following:

      (1) To select the Measurement Funds in accordance with Section 4.1 hereof;

      (2) To construe and interpret the terms and provisions of the Plan and to remedy any inconsistencies or ambiguities hereunder;

      (3) To select employees eligible to participate in the Plan;

      (4) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;

      (5) To maintain all records that may be necessary for the administration of the Plan;

      (6) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;

      (7) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;

      (8) To appoint a plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Committee may from time to time prescribe; and

      (9) To take all actions necessary for the administration of the Plan.

  - 8.5 Construction and Interpretation.

    The Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, which interpretations or construction shall be final and binding on all parties, including but not limited to the Company and any Participant or Beneficiary. The Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

  - 8.6 Information.

    To enable the Committee to perform its functions, the Company shall supply full and timely information to the Committee on all matters relating to the Compensation of all Participants, their death or other events which cause termination of their participation in this Plan, and such other pertinent facts as the Committee may require.

  - 8.7 Compensation, Expenses and Indemnity.

    - The members of the Committee shall serve without compensation for their services hereunder.

- The Committee is authorized at the expense of the Company to employ such legal counsel and other advisors as it may deem advisable to assist in the performance of its duties hereunder. Expenses and fees in connection with the administration of the Plan shall be paid by the Company.
- To the extent permitted by applicable state law, the Company shall indemnify and save harmless the Committee and each member thereof, the Board of Directors and any delegate of the Committee who is an employee of the Company against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under state law.

- 8.8 Quarterly Statements.

Under procedures established by the Committee, a Participant shall receive a statement with respect to such Participant's Accounts on a quarterly basis as of each March 31, June 30, September 30 and December 31.

- 8.9 Disputes.

  - Claim.

    A person who believes that he or she is being denied a benefit to which he or she is entitled under this Agreement (hereinafter referred to as "Claimant") may file a written request for such benefit with the Administrator, setting forth his or her claim. The request must be addressed to the Administrator at the Company at its then principal place of business.

  - Claim Decision.

    Upon receipt of a claim, the Administrator shall advise the Claimant that a reply shall be forthcoming within 90 days and shall, in fact, deliver such reply within such period. The Administrator may, however, extend the reply period for an additional 90 days for special circumstances.

    If the claim is denied in whole or in part, the Administrator 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) the specific reference to pertinent provisions of this Agreement on which such denial is based; (iii) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or such information is necessary; (iv) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (v) the time limits for requesting a review under subsection (c).

  - Request For Review.

    With 60 days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing a review the determination of the Administrator. Such review shall be completed by the Senior Vice-President of Human Resources of the Company for Participants who are Managers and by the Committee for Participants who are Executive Officers or Directors. Such request must be addressed to the Secretary of the Company, at its then principal place of business. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Senior Vice-President of Human Resources or the Committee, as applicable. If the Claimant does not request a review within such 60 day period, he or she shall be barred and estopped from challenging the Administrator's determination.

  - Review of Decision.

    Within 60 days after the receipt of a request for review by the Senior Vice-President of Human Resources or the Compensation Committee, as applicable, after considering all materials presented by the Claimant, the Senior Vice-President of Human Resources or the Compensation Committee, as applicable, shall inform the Participant in writing, in a manner calculated to be understood by the Claimant, the decision setting forth the specific reasons for the decision contained specific references to the pertinent provisions of this Plan on which the decision is based. If special circumstances require that the 60 day time period be extended, the Senior Vice-President of Human Resources or the Compensation Committee, as applicable, shall so notify the Claimant and shall render the decision as soon as possible, but no later than 120 days after receipt of the request for review.

- **ARTICLE IX.**

  MISCELLANEOUS

- 9.1 Unsecured General Creditor.

  Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Company. No assets of the Company shall be held in any way as collateral security for the fulfilling of the obligations of the Company under this Plan. Any and all of the Company's assets shall be, and remain, the general unpledged, unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Company that this Plan be unfunded for purposes of the Code and Title I of ERISA.

- 9.2 Restriction Against Assignment.

  - The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or entity. No right, title or interest in the Plan or in any account may be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution. No right, title or interest in the Plan or in any Account shall be liable for the debts, contracts or engagements of the Participant or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.
  - Notwithstanding the provisions of subsection (a), a Participant's interest in his Account may be transferred by the Participant pursuant to a domestic relations order that constitutes a "qualified domestic relations order" as defined by the Code or Title I of ERISA.

- 9.3 Withholding.

  There shall be deducted from each payment made under the Plan or any other Compensation payable to the Participant (or Beneficiary) all taxes which are required to be withheld by the Company in respect to such payment or this Plan. The Company shall have the right to reduce any payment (or compensation) by the amount of such of cash sufficient to provide the amount of said taxes.

- 9.4 Amendment, Modification, Suspension or Termination.

  Subject to Section 7.4, the Committee may amend, modify, suspend or terminate the Plan in whole or in part, except that no amendment, modification, suspension or termination shall have any retroactive effect to reduce any vested amounts allocated to a Participant's Accounts. In the event of Plan termination, distributions may be accelerated.

- 9.5 Designation of Beneficiary.

  - Each Participant shall have the right to designate, revoke and redesignate Beneficiaries hereunder and to direct payment of his Distributable Amount to such Beneficiaries upon his death.
  - Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with the procedures established by the Committee and shall be effective upon delivery to the Committee.
  - No designation of a Beneficiary other than the Participant's spouse shall be valid unless consented in writing by such spouse. If there is no Beneficiary designation in effect, or the designated beneficiary does not survive the Participant, then the Participant's spouse shall be the Beneficiary. If there is no surviving spouse, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary.
  - After the Participant's death, any Beneficiary (other than the Participant's estate) who is to receive installment payments may designate a secondary beneficiary to receive amounts due under this Plan to the Beneficiary in the event of the Beneficiary's death prior to receiving full payment from the Plan. If no secondary beneficiary is designated, it shall be the Beneficiary's estate.

- 9.6 Insurance.

  - As a condition of participation in this Plan, each Participant shall, if requested by the Committee or the Company, undergo such examination and provide such information as may be required by the Company with respect to any insurance contracts on the Participant's life and shall authorize the Company to purchase life insurance on his life, payable to the Company.
  - If the Company maintains an insurance policy on a Participant's life to fund benefits under the Plan and such insurance policy is invalidated because (i) the Participant commits suicide during the two-year period beginning on the first day of the first Plan Year of such Participant's participation in the Plan or because (ii) the Participant makes any material misstatement of information or nondisclosure of medical history, then the only benefits that shall be payable hereunder to such Participant, his Beneficiary or his surviving spouse, are the payment of the

amount of deferrals of Compensation and/or 401(k) Excess then credited to the Participant's Accounts but without any interest including interest theretofore credited under this Plan.

- 9.7 Governing Law.

  Subject to ERISA, this Plan shall be construed, governed and administered in accordance with the laws of the State of California.

- 9.8 Receipt of Release.

  Any payment to a Participant or the Participant's Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Committee and the Company. The Committee may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

- 9.9 Compliance with Code Section 162(m)

  It is the intent of the Company that any Compensation which is deferred under the Plan by a person who is, with respect to the year of distribution, deemed by the Committee to be a "covered employee" within the meaning of Code Section 162(m) and regulations thereunder, which Compensation constitutes either "qualified performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder or compensation not otherwise subject to the limitation on deductibility under Section 162(m) and regulations thereunder, shall not, as a result of deferral hereunder, become compensation with respect to which the Company in fact would not be entitled to a tax deduction under Code Section 162(m). If the Company determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Company would not be deductible by the Company solely by reason of the limitation under Code Secti on 162(m), then to the extent deemed necessary by the Company to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Company may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Article IV, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Company in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Company during which the distribution is made shall not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, this Sectio n shall not apply to any distributions made after a Change in Control.

- 9.10 Payments on Behalf of Persons Under Incapacity.

  In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such termination shall constitute a full release and discharge of the Committee and the Company.

- 9.11 Limitation of Rights

  Neither the establishment of the Plan nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving to any Participant or other person any legal or equitable right against the Company except as provided in the Plan. In no event shall the terms of employment of, or membership on the Board by, any Participant be modified or in any be effected by the provisions of the Plan.

- 9.12 Exempt ERISA Plan

  The Plan is intended to be an unfunded plan maintained primarily to provide deferred compensation benefits for directors and a select group of management or highly compensated employees within the meaning of Sections 201, 301 and 401 of ERISA and therefore to be exempt from Parts 2, 3 and 4 of Title I of ERISA.

- 9.13 Notice

  Any notice or filing required or permitted to be given to the Committee under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Company, directed to the attention of the General Counsel and Secretary of the Company. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

- 9.14 Errors and Misstatements

  In the event of any misstatement or omission of fact by a Participant to the Committee or any clerical error resulting in payment of benefits in an incorrect amount, the Committee shall promptly cause the amount of future payments to be

corrected upon discovery of the facts and shall pay or, if applicable, cause the Plan to pay, the Participant or any other person entitled to payment under the Plan any underpayment in a lump sum or to recoup any overpayment from future payments to the Participant or any other person entitled to payment under the Plan in such amounts as the Committee shall direct or to proceed against the Participant or any other person entitled to payment under the Plan for recovery of any such overpayment.

- 9.15 Pronouns and Plurality

  The masculine pronoun shall include the feminine pronoun, and the singular the plural where the context so indicates.

- 9.16 Severability

  In the event that any provision of the Plan shall be declared unenforceable or invalid for any reason, such unenforceability or invalidity shall not affect the remaining provisions of the Plan but shall be fully severable, and the Plan shall be construed and enforced as if such unenforceable or invalid provision had never been included herein.

- 9.17 Status

  The establishment and maintenance of, or allocations and credits to, the Accounts of any Participant shall not vest in any Participant any right, title or interest in and to any Plan assets or benefits except at the time or times and upon the terms and conditions and to the extent expressly set forth in the Plan.

- 9.18 Headings.

  Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

EXHIBIT 12.1

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

	Nine months ended September 30,					
	1997	1998	1999	2000	2001	2002
~~Fixed Charges and Preferred Stock Dividends:~~						
~~Interest~~	~~$ 209~~	~~$ 210~~	~~$ 233~~	~~$ 308~~	~~$ 358~~	~~$ 261~~
~~Interest portion of annual rentals~~	~~25~~	~~20~~	~~10~~	~~8~~	~~6~~	~~3~~
~~Preferred dividends of subsidiaries (1)~~	~~31~~	~~18~~	~~16~~	~~18~~	~~16~~	~~12~~
~~Combined Fixed Charges and Preferred Stock Dividends for Purpose of Ratio~~	~~$ 265~~	~~$ 248~~	~~$ 259~~	~~$ 334~~	~~$ 380~~	~~$ 276~~
~~Earnings:~~						
~~Pretax income from continuing operations~~	~~$ 733~~	~~$ 432~~	~~$ 573~~	~~$ 699~~	~~$ 731~~	~~$ 588~~
~~Total Fixed Charges (from above)~~	~~265~~	~~248~~	~~259~~	~~334~~	~~380~~	~~276~~
~~Less: Interest capitalized~~	~~2~~	~~1~~	~~1~~	~~3~~	~~11~~	~~18~~
~~Equity income (loss) of unconsolidated subsidiaries and joint ventures~~	~~—~~	~~—~~	~~62~~	~~12~~	~~(60)~~	

~~— Total Earnings for Purpose of Ratio $ 996 $ 679 $ 831 $ 968 $1,088 $ 906 ======== ======== ======== ======== ========= Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends 3.76 2.74 3.21 2.90 2.86 3.28 ======== ======== ======== ======== ======== ========= (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.~~