

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

FORM 10-Q

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

For the quarterly period ended June 30, 1994, or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from ----- to -----

Commission file number 1-1402

Southern California Gas Company

(Exact name of registrant as specified in its charter)

California

95-1240705

(State or other jurisdiction of incorporation
or organization)

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

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

(Address of principal executive offices)
(Zip Code)

(213) 244-1200

(Registrant's telephone number, including area code)

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

Yes X No
--- ---

The number of shares of common stock outstanding on July 29, 1994 was
91,300,000.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	Three Months Ended June 30		Six Months Ended June 30	
	1994	1993	1994	1993

	(Unaudited)			
Operating Revenues	\$630,298	\$633,440	\$1,319,452	\$1,392,161

Operating Expenses:				
Cost of gas distributed	251,027	237,196	605,114	617,246
Operation and maintenance	192,270	209,143	338,332	391,287
Depreciation	58,077	56,797	115,717	112,302
Income taxes	32,987	36,574	65,785	72,741
Other taxes and franchise payments	27,843	24,883	58,812	59,136

Total	562,204	564,593	1,183,760	1,252,712

Net Operating Revenue	68,094	68,847	135,692	139,449

Other Income and (Deductions):				
Interest income	702	575	980	1,340
Regulatory interest	985	637	2,049	674
Allowance for equity funds used during construction	771	1,302	1,484	2,498
Income taxes on non-operating income	(1,211)	(515)	(964)	(1,446)
Other - net	(1,126)	(1,703)	(2,587)	(2,290)

Total	121	296	962	776

Interest Charges and (Credits):				
Interest on long-term debt	22,254	23,311	44,511	49,170
Other interest	609	(820)	3,248	(1,020)
Allowance for borrowed funds used during construction	(436)	(810)	(842)	(1,554)

Total	22,427	21,681	46,917	46,596

Net Income	45,788	47,462	89,737	93,629
Dividends on Preferred Stock	2,565	2,437	5,005	4,970

Net Income Applicable to Common Stock	\$ 43,223	\$ 45,025	\$ 84,732	\$ 88,659
	=====	=====	=====	=====

See Notes to Condensed Consolidated Financial Statements.

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

	June 30 1994 ----- (Unaudited)	December 31 1993 -----
Utility Plant	\$5,502,189	\$5,422,549
Less accumulated depreciation	2,300,251	2,205,043
	-----	-----
Utility plant - net	3,201,938	3,217,506
	-----	-----
Current Assets:		
Cash and cash equivalents	34,365	14,533
Accounts and notes receivable - net	312,148	503,308
Regulatory accounts receivable	379,200	443,718
Gas in storage	10,943	53,114
Materials and supplies	21,180	20,618
Prepaid expenses	15,992	22,971
Deferred income taxes	23,220	
	-----	-----
Total current assets	797,048	1,058,262
	-----	-----
Deferred Charges	711,425	674,452
	-----	-----
Total	\$4,710,411	\$4,950,220
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

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

	June 30 1994 ----- (Unaudited)	December 31 1993 -----
Capitalization:		
Common equity:		
Common stock	\$ 834,889	\$ 834,889
Retained earnings	635,376	607,250
	-----	-----
Total common equity	1,470,265	1,442,139
Preferred stock	196,551	196,551
Long-term debt	1,205,400	1,235,622
	-----	-----
Total capitalization	2,872,216	2,874,312
	-----	-----
Current Liabilities:		
Short-term debt	179,778	267,000
Accounts payable	402,727	417,001
Accounts payable-affiliates	326,046	513,306
Accrued taxes and franchise payments	76,273	21,907
Deferred income taxes		39,542
Long-term debt due within one year	31,005	5
Accrued interest	32,612	35,007
Other accrued liabilities	122,077	129,367
	-----	-----
Total current liabilities	1,170,518	1,423,135
	-----	-----
Deferred Credits:		
Customer advances for construction	46,205	45,493
Deferred income taxes	398,250	399,535
Deferred investment tax credits	71,481	72,993
Other deferred credits	151,741	134,752
	-----	-----
Total deferred credits	667,677	652,773
	-----	-----
Total	\$4,710,411	\$4,950,220
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30	
	1994	1993
	(Unaudited)	
Cash Flows From Operating Activities:		
Net income	\$ 89,737	\$ 93,629
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	115,718	112,302
Deferred income taxes	10,393	8,324
Other	(2,136)	(3,939)
Net change in other working capital components	83,829	165,729
	-----	-----
Net cash provided by operating activities	297,541	376,045
	-----	-----
Cash Flows from Investing Activities:		
Expenditures for utility plant	(98,708)	(115,902)
Increase in other assets	(30,072)	(22,391)
	-----	-----
Net cash used in investing activities	(128,780)	(138,293)
	-----	-----
Cash Flows from Financing Activities:		
Dividends	(61,707)	(70,401)
Issuance of long-term debt		356,000
Payments of long-term debt		(336,669)
Redemption of preferred stock		(75,000)
Sale of preferred stock		75,000
Decrease in short-term debt	(87,222)	(188,000)
	-----	-----
Net cash used in financing activities	(148,929)	(239,070)
	-----	-----
Increase in Cash and Cash Equivalents	19,832	(1,318)
Cash and Cash Equivalents - January 1	14,533	1,318
	-----	-----
Cash and Cash Equivalents - June 30	\$ 34,365	\$
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period:		
Interest (net of amount capitalized)	\$53,507	\$54,681
	=====	=====
Income Taxes	\$30,819	\$127,708
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

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

1. SUMMARY OF ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements have been prepared in accordance with the interim period reporting requirements of Form 10-Q. Reference is made to the Form 10-K for the year ended December 31, 1993 for additional information.

Results of operations for interim periods are not necessarily indicative of results for the entire year. In order to match revenues and costs for interim reporting purposes, the Company defers revenues related to costs which are expected to be incurred later in the year. In the opinion of management, the accompanying statements reflect all adjustments which are necessary for a fair presentation. These adjustments are of a normal recurring nature. Certain changes in account classification have been made in the prior years' consolidated financial statements to conform to the 1994 financial statement presentation.

2. RESTRUCTURING OF GAS SUPPLY CONTRACTS AND COMPREHENSIVE SETTLEMENT OF REGULATORY ISSUES

RESTRUCTURING OF GAS SUPPLY CONTRACTS. The Company and its gas supply affiliates have reached agreements with suppliers of California offshore and Canadian natural gas for a restructuring of long-term gas supply contracts. The cost of these supplies to the Company had been substantially in excess of the Company's average delivered cost of gas. During 1993, these excess costs totaled approximately \$125 million.

The agreements substantially reduce the ongoing delivered costs of these gas supplies and provide lump sum settlement payments of \$375 million to the suppliers. The expiration date for the Canadian gas supply contract has been shortened from 2012 to 2003, and the supplier of California offshore gas continues to have an option to purchase related gas treatment and pipeline facilities owned by the Company's gas supply affiliate. The agreement with the suppliers of Canadian gas is subject to certain Canadian regulatory approvals.

COMPREHENSIVE SETTLEMENT OF REGULATORY ISSUES. The Company and a number of interested parties (including the Division of Ratepayer Advocates (DRA) of the California Public Utilities Commission (CPUC), large noncore customers and ratepayer groups) proposed for CPUC approval a comprehensive settlement (Comprehensive Settlement) of a number of pending regulatory issues including partial rate recovery of restructuring costs associated with the gas supply contracts discussed above. The Comprehensive Settlement was approved by the CPUC on July 20, 1994 and will permit the Company to recover in utility rates approximately 80 percent of the contract restructuring costs of \$375

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

million and accelerated amortization of related pipeline assets of its gas supply affiliates of approximately \$130 million, together with interest, over a period of approximately five years. In addition to the gas supply issues, the Comprehensive Settlement addresses noncore customer rates, reasonableness reviews, a gas cost incentive mechanism and attrition. The Company reflected the impact of the Comprehensive Settlement in its financial statements in 1993. The Company has obtained authorization from the CPUC for the borrowing of up to \$425 million primarily to provide for funds needed under the Comprehensive Settlement.

3. GAS COST INCENTIVE MECHANISM

On March 16, 1994, the CPUC approved a new process for evaluating SoCalGas' gas purchases, replacing the previous process of reasonableness reviews. The new gas cost incentive mechanism (GCIM) is a three-year pilot program beginning April 1, 1994. The GCIM essentially compares SoCalGas' cost of gas with a benchmark level, which is the average price of 30-day firm spot supplies delivered to the SoCalGas market area.

If SoCalGas' cost of gas exceeds the benchmark level by a tolerance band, then the excess costs will be shared equally between ratepayers and shareholders. Savings from gas purchased below the benchmark level will also be shared equally between ratepayers and shareholders. For the first year of the program, the GCIM provides a 4.5 percent tolerance band. For the second and third years of the program, the tolerance band decreases to 4.0 percent.

4. COMMITMENTS AND CONTINGENT LIABILITIES

The Gas Company has identified and reported to California environmental authorities 42 former gas manufacturing sites for which it (together with other utilities as to 21 of the sites) may have remedial obligations under environmental laws. In addition, the Company is one of a large number of major corporations that have been named by federal authorities as potentially responsible parties for environmental remediation of two other industrial sites and a landfill site. As of June 30, 1994, five gas manufacturing sites had been remediated and certified by California environmental authorities. One industrial site had also been removed from the list of environmental liabilities through settlement and subsequent release by the committee of responsible parties and federal authorities. There are 37 gas manufacturing sites which remain to be investigated or remediated, in addition to one landfill site and one industrial disposal site. It is anticipated that the investigation, and if necessary, remediation of these sites will be completed over a period of from 10 years to 20 years.

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

In November 1993, a collaborative settlement agreement between the Company and other California energy utilities and the DRA was submitted to the CPUC for approval. The settlement recommended a ratemaking mechanism that would provide recovery of 90 percent of environmental investigation and remediation costs without reasonableness review. In addition, the utilities would have the opportunity to retain a percentage of any insurance recoveries to offset the 10 percent of costs not recovered in rates. On May 4, 1994, the CPUC adopted the cost sharing mechanism discussed above.

5. POSTEMPLOYMENT BENEFITS

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112, Employers' Accounting for Postemployment Benefits (SFAS 112). SFAS 112 requires the accrual of the obligation to provide benefits to former or inactive employees after employment but before retirement. The adoption of SFAS 112 had no impact on earnings since these costs are currently recovered in rates as paid, and as such, have been reflected as a regulatory asset. At June 30, 1994, the total postemployment benefit liability was \$40 million.

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

Southern California Gas Company (The Gas Company or the Company) is a subsidiary of Pacific Enterprises (Parent) which owns 96 percent of the Company's voting stock, including all of its issued and outstanding common stock. The Gas Company is a public utility owning and operating a natural gas transmission, storage and distribution system that serves almost 16 million persons through approximately 4.7 million meters in 535 cities and communities throughout most of southern California and parts of central California, a service area of 23,000 square miles. The Company is dedicated to providing high quality gas service to residential, commercial, industrial, utility electric generation (UEG) and wholesale customers. The Company is subject to regulation by the California Public Utilities Commission (CPUC) which, among other things, establishes rates the Company may charge for gas service, including an authorized rate of return on investment. Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Consolidated Financial Statements and the Company's Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Net income for the three and six months ended June 30, 1994 decreased by \$2

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

million and \$4 million, respectively, compared to the same periods in 1993. The decrease for both the three months and six months ended June 30, 1994 was due primarily to a reduction in the Company's authorized rate of return on common equity from 11.9 percent in 1993 to 11.0 percent in 1994 partially offset by the growth in rate base and higher earnings from the noncore market.

Operating revenues for the three and six months ended June 30, 1994 decreased \$3 million and \$73 million, respectively, when compared to the same periods in 1993. The decreases in operating revenues for the three and six months ended June 30, 1994 reflect decreases in authorized gas margin and the average unit cost of gas partially offset by an increase in noncore volumes transported. Cost of gas distributed for the three months ended June 30, 1994 increased \$14 million compared to 1993. Cost of gas distributed for the six months ended June 30, 1994 decreased \$12 million compared to 1993. The increase in cost of gas distributed for the three months ended June 30, 1994 reflects an increase in volumes sold to core customers as a result of colder weather in 1994 partially offset by a decrease in the average unit cost of gas. The decrease in cost of gas distributed for the six months ended June 30, 1994, reflects lower volumes of gas sold to core customers in 1994 and a decrease in the average unit cost of gas.

RECENT CPUC REGULATORY ACTIVITY The Company and a number of interested parties (including the Division of Ratepayer Advocates of the CPUC, large noncore customers and ratepayer groups) proposed for CPUC approval a comprehensive settlement (Comprehensive Settlement) of a number of pending regulatory issues including partial rate recovery of restructuring costs associated with gas supply contracts (See Note 2 of Notes to Condensed Consolidated Financial Statements). The Comprehensive Settlement was approved by the CPUC on July 20, 1994 and will permit the Company to recover in utility rates approximately 80 percent of the contract restructuring costs of \$375 million and accelerated depreciation of related pipeline assets of approximately \$130 million, together with interest, over a period of approximately five years. The Company has obtained authorization from the CPUC for the borrowing of up to \$425 million primarily to provide for funds needed under the Comprehensive Settlement.

In August 1993, the Company filed a \$134 million rate increase with the CPUC. Included in this BCAP filing is a rate structure designed to further reduce subsidies by nonresidential core customers to residential customers by better aligning residential rates with the cost of providing residential service.

The CPUC, in an interim decision, granted the Company a \$121 million revenue increase effective January 1, 1994. A final CPUC decision is expected in late 1994.

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

FACTORS INFLUENCING FUTURE PERFORMANCE. Based on existing ratemaking policies, future Company earnings and cash flow will be determined primarily by the allowed rate of return on common equity, the growth in rate base, noncore pricing and throughput and the ability of management to control expenses and investment in line with the amounts authorized by the CPUC to be collected in rates. Also, the Company's ability to earn revenues in excess of its authorized return from noncore customers due to volume increases will be substantially eliminated for the five years beginning August 1, 1994 per the Comprehensive Settlement described above. This is because forecasted deliveries in excess of the 1991 throughput levels used to establish rates were contemplated in estimating the costs of the Comprehensive Settlement at December 31, 1993. The impact of any future regulatory restructuring and increased competitiveness in the industry, including the continuing threat of customers bypassing the Company's system and obtaining service directly from interstate pipelines, could also affect the Company's future performance.

The Gas Company's earnings for 1994 will be affected by the reduction in the authorized rate of return on common equity, reflecting the overall decline in cost of capital, offset by higher rate base than in 1993. For 1994, the Company is authorized to earn a rate of return on rate base of 9.22 percent and an 11.00 percent rate of return on common equity compared to 9.99 percent and 11.90 percent, respectively, in 1993. Rate base is expected to increase by approximately 4 percent to 5 percent in 1994.

In April, the CPUC announced it will review the structure of California's electric utility service, a review that could lead to significant changes in the way California's investor-owned electric utilities do business. The CPUC's proposal has no immediate effect on the Company's operations, although future volumes of natural gas the Company transports for electric utilities could be affected. The Company is closely monitoring the process and has taken an active role in the proceedings because of its considerable experience with natural gas deregulation and because the treatment of some electric utility regulatory issues could have indirect implications for the Company.

The Gas Company's operations are affected by a growing number of environmental laws and regulations. These laws and regulations affect current operations as well as future expansion and also require clean-up of facilities no longer in use. Because of expected regulatory treatment, the Company believes that compliance with these laws will not have a significant impact on its financial statements. For further discussion of regulatory and environmental matters, see Notes 2, 3, and 4 of Notes to Condensed Consolidated Financial Statements.

On January 17, 1994, the Company's service area was struck by a major earthquake. The result was a temporary disruption to approximately 150,000

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

customers and damage to some facilities. The financial impact of the damages related to the earthquake not recovered by insurance is expected to be recovered in rates under an existing balancing account mechanism, and should have no impact on the Company's financial statements.

CAPITAL EXPENDITURES. For the six months ended June 30, 1994, capital expenditures were \$99 million. Capital expenditures for utility plant are expected to be approximately \$300 million in 1994 and will be financed by internally-generated funds and by issuance of long-term debt.

LIQUIDITY

Regulatory accounts receivable decreased \$65 million reflecting the recovery through increased gas rates of prior undercollections under the regulatory account procedures. As a result, the cash flows generated were available for additional cash requirements. The decrease in gas in storage inventories of \$42 million was primarily due to the seasonal withdrawals required to meet the Company's winter demand.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) There were no reports on Form 8-K filed during the quarter ended June 30, 1994.

SIGNATURE

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

SOUTHERN CALIFORNIA GAS COMPANY

(Registrant)

/s/ Ralph Todaro

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

Date: August 12, 1994