

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

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 No.	Exact Name of Registrants as Specified in their Charters, Address and Telephone Number	States of Incorporation	I.R.S. Employer Identification Nos.
1-14201	SEMPRA ENERGY 101 Ash Street San Diego, California 92101 (619)696-2034	California	33-0732627
1-3779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California	95-1184800
1-40	PACIFIC ENTERPRISES 101 Ash Street San Diego, California 92101 (619)696-2020	California	94-0743670
1-1402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (213)244-1200	California	95-1240705

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Sempra Energy Common Stock, without par value	New York
SDG&E Preference Stock (Cumulative) Without Par Value (except \$1.70 Series)	New York
SDG&E Cumulative Preferred Stock, \$20 Par Value (except 4.60% Series)	New York
Pacific Enterprises Preferred Stock: \$4.75 dividend, \$4.50 dividend \$4.40 dividend, \$4.36 dividend	New York

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2008:

Sempra Energy	\$13.8 billion (based on the price at which the common equity was last sold as of the last business day of the most recently completed second fiscal quarter)
San Diego Gas & Electric Company	\$0
Pacific Enterprises	\$0
Southern California Gas Company	\$0

Common Stock outstanding, without par value, as of February 12, 2009:

Sempra Energy	243,425,520 shares
San Diego Gas & Electric Company	Wholly owned by Enova Corporation, which is wholly owned by Sempra Energy
Pacific Enterprises	Wholly owned by Sempra Energy
Southern California Gas Company	Wholly owned by Pacific Enterprises

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the 2008 Annual Report to Shareholders of Sempra Energy, San Diego Gas & Electric Company, Pacific Enterprises and Southern California Gas Company are incorporated by reference into Parts I, II and IV.

Portions of the Sempra Energy Proxy Statement prepared for the April 2009 annual meeting of shareholders are incorporated by reference into Parts II and III.

Portions of the San Diego Gas & Electric Company, Southern California Gas Company and Pacific Enterprises Information Statement are incorporated by reference into Part III.

SEMPRA ENERGY 10-K

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This combined Form 10-K is separately filed by Sempra Energy, San Diego Gas & Electric Company, Pacific Enterprises and Southern California Gas Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes representations only as to itself and makes no other representation whatsoever as to any other company.

You should read this report in its entirety as it pertains to each respective reporting company. No one section of the report deals with all aspects of the subject matter. Separate Item 6 and 8 sections are provided for each reporting company, except for the Notes to Consolidated Financial Statements. The Notes to Consolidated Financial Statements for all of the reporting companies are combined. All Items other than 6 and 8 are combined for the reporting companies.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are necessarily based upon assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the date of this report.

In this report, when we use words such as "believes," "expects," "anticipates," "plans," "estimates," "projects," "contemplates," "intends," "depends," "should," "could," "would," "may," "potential," "target," "goals," or similar expressions, or when we discuss our strategy, plans or intentions, we are making forward-looking statements.

Factors, among others, that could cause our actual results and future actions to differ materially from those described in forward-looking statements include

- § local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments;

- § actions by the California Public Utilities Commission, the California State Legislature, the California Department of Water Resources, the Federal Energy Regulatory Commission, the Federal Reserve Board, and other regulatory and governmental bodies in the United States, the United Kingdom and other countries;

- § capital markets conditions and inflation, interest and exchange rates;

- § energy and trading markets, including the timing and extent of changes and volatility in commodity prices;

- § the availability of electric power, natural gas and liquefied natural gas;

- § weather conditions and conservation efforts;

- § war and terrorist attacks;

- § business, regulatory, environmental and legal decisions and requirements;

- § the status of deregulation of retail natural gas and electricity delivery;

- § the timing and success of business development efforts;

- § the resolution of litigation; and

- § other uncertainties, all of which are difficult to predict and many of which are beyond our control.

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described in this report and other reports that we file with the Securities and Exchange Commission.

ITEM 1. BUSINESS

DESCRIPTION OF BUSINESS

We provide a description of Sempra Energy and its subsidiaries in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2008 Annual Report to Shareholders (Annual Report), which is incorporated by reference.

This report includes information for the following separate registrants:

- § Sempra Energy and its consolidated entities
- § San Diego Gas & Electric Company (SDG&E)
- § Pacific Enterprises (PE), the holding company for Southern California Gas Company
- § Southern California Gas Company (SoCalGas)

References in this report to "we," "our" and "our company" are to Sempra Energy and its subsidiaries, collectively. SDG&E and SoCalGas are collectively referred to as the Sempra Utilities.

Sempra Energy has five separately managed reportable segments consisting of SDG&E, SoCalGas, Sempra Commodities, Sempra Generation and Sempra Pipelines & Storage. Sempra Commodities, Sempra Generation, Sempra Pipelines & Storage, and an additional business unit, Sempra LNG (liquefied natural gas) are subsidiaries of Sempra Global. Sempra Global is a holding company for most of our subsidiaries that are not subject to California utility regulation.

SDG&E, PE and SoCalGas are subsidiaries of Sempra Energy. Sempra Energy directly or indirectly owns all the common stock and substantially all of the voting stock of each of the three companies.

In April 2008, Sempra Energy formed a partnership with The Royal Bank of Scotland plc (RBS) to purchase and operate our commodities-marketing businesses, which generally comprised the Sempra Commodities segment. This partnership, RBS Sempra Commodities LLP (RBS Sempra Commodities), is discussed in "Sempra Global – Sempra Commodities" below.

COMPANY WEBSITES

Company website addresses are:

- Sempra Energy – <http://www.sempra.com>
- SDG&E – <http://www.sdge.com>
- PE/SoCalGas – <http://www.socalgas.com>

We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. SDG&E and SoCalGas make available free of charge via a hyperlink on their websites their annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

The charters of the audit, compensation and corporate governance committees of Sempra Energy's board of directors (the board), the board's corporate governance guidelines, and Sempra Energy's code of business conduct and ethics for directors and officers are posted on Sempra Energy's website.

GOVERNMENT REGULATION

The most significant government regulation affecting Sempra Energy is the regulation of our utility subsidiaries.

California Utility Regulation

The Sempra Utilities are regulated in California by the California Public Utilities Commission (CPUC), the California Energy Commission (CEC), and the California Air Resources Board (CARB).

The California Public Utilities Commission:

- § consists of five commissioners appointed by the Governor of California for staggered, six-year terms.
- § regulates SDG&E's and SoCalGas' rates and conditions of service, sales of securities, rates of return, capital structure, rates of depreciation, and long-term resource procurement, except as described below in "United States Utility Regulation."
- § has jurisdiction over the proposed construction of major new electric transmission, electric distribution, and natural gas transmission and distribution facilities in California.
- § conducts various reviews of utility performance, conducts audits for compliance with regulatory guidelines, and conducts investigations into various matters, such as deregulation, competition and the environment, to determine its future policies.
- § regulates the interactions and transactions of the Sempra Utilities with Sempra Energy and its other affiliates.

We provide further discussion in Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E is also subject to regulation by the CEC, which establishes electric demand forecasts for the state and for specific service territories. Based upon these forecasts, the CEC:

- § determines the need for additional energy sources and conservation programs;
- § sponsors alternative-energy research and development projects;
- § promotes energy conservation programs;
- § maintains a statewide plan of action in case of energy shortages; and
- § certifies power-plant sites and related facilities within California.

The CEC conducts a 20-year forecast of available supplies and prices for every market sector that consumes natural gas in California. This forecast includes resource evaluation, pipeline capacity needs, natural gas demand and wellhead prices, and costs of transportation and distribution. This analysis is one of many source materials used to support the Sempra Utilities' long-term investment decisions.

Currently, the State of California is requiring certain California electric retail sellers, including SDG&E, to deliver 20 percent of their 2010 retail demand from renewable energy sources, and 33 percent by 2020. The rules governing this requirement, administered by both the CPUC and the CEC, are generally known as the Renewables Portfolio Standard (RPS) Program. Certification of a generation project by the CEC as an Eligible Renewable Energy Resource (ERR) allows the purchase of output from a generation facility to be counted towards fulfillment of the RPS Program requirements. This may affect the demand for output from renewables projects developed by Sempra Generation, particularly from California utilities. Final certification as an ERR for Sempra Generation's recently completed El Dorado solar generation facility is pending.

California Assembly Bill 32, the California Global Warming Solutions Act of 2006, makes the CARB responsible for monitoring and establishing policies for reducing greenhouse gas (GHG) emissions. The bill requires CARB to develop and adopt a comprehensive plan for achieving real, quantifiable and cost-effective GHG emission

reductions, including a statewide GHG emissions cap, mandatory reporting rules, and regulatory and market mechanisms to achieve reductions of GHG emissions. CARB is a part of the California Environmental Protection Agency, an organization which reports directly to the Governor's Office in the Executive Branch of California State Government. As the CARB formulates its plan, provisions of the plan may apply to the Sempra Utilities.

United States Utility Regulation

The Sempra Utilities are also regulated nationally by the Federal Energy Regulatory Commission (FERC) and the Nuclear Regulatory Commission (NRC).

In the case of SDG&E, the FERC regulates the interstate sale and transportation of natural gas, the transmission and wholesale sales of electricity in interstate commerce, transmission access, rates of return on transmission investment, the uniform systems of accounts, rates of depreciation and electric rates involving sales for resale.

In the case of SoCalGas, the FERC regulates the interstate sale and transportation of natural gas and the uniform systems of accounts.

The NRC oversees the licensing, construction and operation of nuclear facilities in the United States, including the nuclear power plant in which SDG&E owns an interest. NRC regulations require extensive review of the safety, radiological and environmental aspects of these facilities. Periodically, the NRC requires that newly developed data and techniques be used to reanalyze the design of a nuclear power plant and, as a result, may require plant modifications as a condition of continued operation.

Sempra Pipelines & Storage operates Mobile Gas Service Corporation (Mobile Gas), a small natural gas distribution utility serving Southwest Alabama that is regulated by the Alabama Public Service Commission (APSC). The FERC regulates Mobile Gas' interstate transportation of natural gas, the uniform systems of accounts, and rates of depreciation.

Local Regulation Within the U.S.

SoCalGas has natural gas franchises with the 243 separate counties and cities in its service territory. These franchises allow SoCalGas to locate, operate and maintain facilities for the transmission and distribution of natural gas in public places. Most of the franchises have indefinite lives with no expiration date. Some franchises have fixed expiration dates, ranging from 2009 to 2048.

SDG&E has

§ electric franchises with the two counties and the 26 cities in its electric service territory, and

§ natural gas franchises with the one county and the 18 cities in its natural gas service territory.

These franchises allow SDG&E to locate, operate and maintain facilities for the transmission and distribution of electricity and/or natural gas in public places. Most of the franchises have indefinite lives with no expiration dates. Some franchises have fixed expiration dates, ranging from 2012 to 2035.

Sempra Generation, Sempra LNG and Sempra Pipelines & Storage have operations or development projects in Alabama, Arizona, California, Louisiana, Mississippi, Nevada and Texas. These entities are subject to state and local laws, and to regulations in the states in which they operate.

Other Regulation

RBS Sempra Commodities is subject to regulation by the U.K. Financial Services Authority, the New York Mercantile Exchange, the Commodity Futures Trading Commission, the FERC, the London Metals Exchange, NYSE Euronext and the National Futures Association.

In the United States, the FERC regulates Sempra Generation's, Sempra Pipelines & Storage's and Sempra LNG's operations. Sempra Pipelines & Storage also owns an interest in a natural gas pipeline, Rockies Express, which is operating and under construction in several states in the United States and is subject to regulation by the FERC.

Bay Gas Storage Company (Bay Gas) is regulated by the APSC and its intrastate storage contracts are subject to APSC approval. Bay Gas provides long-term services for customers that include storage and transportation of natural gas from interstate and intrastate sources. As an intrastate facility, Bay Gas is regulated by the FERC as a

311 facility, and the FERC has also approved market-based rates for interstate storage services and cost-based rates for transportation services.

Several of our segments operate in Mexico as follows:

§ Sempra Generation owns and operates a natural gas-fired power plant in Baja California, Mexico

§ Sempra Pipelines & Storage's Mexican utilities build and operate natural gas distribution systems in Mexicali, Chihuahua, and the La Laguna-Durango zone in north-central Mexico

§ Sempra Pipelines & Storage transports gas between the U.S border and Baja California, Mexico

§ Sempra LNG owns and operates the Energía Costa Azul LNG receipt terminal located in Baja California, Mexico

These operations are subject to regulation by the Comisión Reguladora de Energía and by the labor and environmental agencies of city, state and federal governments in Mexico.

Sempra Pipelines & Storage also has investments in Latin America that are subject to laws and regulations in the localities and countries in which they operate.

Licenses and Permits

The Sempra Utilities obtain numerous permits, authorizations and licenses in connection with the operation and construction of assets for the transmission and distribution of natural gas and electricity. Because these permits, authorizations and licenses require periodic renewal, they are continuously regulated by the granting agencies.

Our other subsidiaries are also required to obtain numerous permits, authorizations and licenses in the normal course of business. Some of these permits, authorizations and licenses require periodic renewal.

Sempra Generation and its subsidiaries obtain a number of permits, authorizations and licenses in connection with the construction and operation of power generation facilities, and in connection with the wholesale distribution of electricity.

Sempra Pipelines & Storage's Mexican subsidiaries obtain construction permits for their natural gas distribution and transmission systems from the local governments where the service is provided. Sempra Pipelines & Storage's U.S. operations obtain licenses and permits for natural gas storage facilities and pipelines.

Sempra LNG obtains licenses and permits for the construction and operation of LNG facilities.

We describe other regulatory matters in Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

CALIFORNIA NATURAL GAS UTILITY OPERATIONS

SoCalGas and SDG&E sell, distribute, and transport natural gas. SoCalGas purchases and stores natural gas for itself and SDG&E on a combined portfolio basis and provides natural gas storage services for others. The Sempra Utilities' resource planning, natural gas procurement, contractual commitments, and related regulatory matters are discussed below. We also provide further discussion in the Annual Report in "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Notes 15 and 16 of the Notes to Consolidated Financial Statements.

Customers

For regulatory purposes, end-use customers are classified as either core or noncore customers. Core customers are primarily residential and small commercial and industrial customers. Noncore customers at SoCalGas consist primarily of electric generation, wholesale, large commercial, industrial, and enhanced oil recovery customers. Noncore customers at SDG&E consist primarily of electric generation, and large commercial and industrial customers.

Most core customers purchase natural gas directly from SoCalGas or SDG&E. While core customers are permitted to aggregate their natural gas requirements and purchase directly from producers, marketers or brokers, the Sempra Utilities continue to be obligated to provide reliable supplies of natural gas to serve the requirements of their core customers. Noncore customers are responsible for the procurement of their natural gas requirements.

Natural Gas Procurement and Transportation

SoCalGas purchases natural gas under short-term and long-term contracts for the Sempra Utilities' core customers. SoCalGas purchases natural gas on a spot basis from Canada, the U.S. Rockies and the southwestern U.S. to meet customer requirements and maintain pipeline reliability. It also purchases some California natural gas production and additional spot-market supplies delivered directly to California for its remaining requirements.

To ensure the delivery of the natural gas supplies to the distribution system and to meet the seasonal and annual needs of customers, SoCalGas is committed to firm interstate pipeline capacity contracts that require the payment of fixed reservation charges to reserve firm transportation entitlements. Interstate pipeline companies, primarily El Paso Natural Gas Company, Transwestern Pipeline Company, and Kern River Gas Transmission Company, provide transportation services into SoCalGas' intrastate transmission system for supplies purchased by SoCalGas or its transportation customers from outside of California. The FERC regulates the rates that interstate pipeline companies may charge for natural gas and transportation services.

SoCalGas has natural gas transportation contracts with various interstate pipelines. These contracts expire on various dates between 2009 and 2025.

Natural Gas Storage

SoCalGas provides natural gas storage services for core, noncore and non-end-use customers. The Sempra Utilities' core customers are allocated a portion of SoCalGas' storage capacity. SoCalGas offers the remaining storage capacity for sale to others through an open bid process. The storage service program provides opportunities for these customers to purchase and store natural gas when natural gas costs are low, usually during the summer, thereby reducing purchases when natural gas costs are expected to be higher. This program allows customers to better manage their fuel procurement and transportation needs.

Demand for Natural Gas

The Sempra Utilities face competition in the residential and commercial customer markets based on the customers' preferences for natural gas compared with other energy products. In the noncore industrial market, some customers are capable of securing alternate fuel supplies from other suppliers which can affect the demand for natural gas. The Sempra Utilities' ability to maintain their respective industrial market shares is largely dependent on the relative spread between delivered energy prices.

Short-Term Demand. The demand for natural gas by electric generators is influenced by a number of factors:

- § the availability of alternative sources of generation; for example, the availability of hydroelectricity is highly dependent on precipitation in the western U.S. and Canada;
- § the performance of other generation sources in the western U.S., including nuclear and coal, renewable energy and other natural gas facilities outside the service area; and
- § the changes in end-use electricity demand; for example, natural gas use generally increases during extended heat waves.

Long-Term Demand. The demand for natural gas used to generate electricity will be influenced by additional factors such as the location of new power plants and the development of renewable energy resources. Recently, more generation capacity has been constructed outside the Sempra Utilities' service area than within it. This new generation will displace the output of older, less-efficient local generation, thereby reducing the use of natural gas for local electric generation. Over the next few years, however, the construction of smaller natural gas-fired peaking and other electric generation facilities within the Sempra Utilities' respective service areas are expected to result in a slight overall increase in the demand for local natural gas for electric generation.

Natural gas demand for electric generation within Southern California competes with electric power generated throughout the western U.S. Natural gas transported for electric generating plant customers may be significantly affected to the extent that regulatory changes and electric transmission infrastructure investment divert electric generation from the Sempra Utilities' respective service areas. We provide additional information regarding electric industry restructuring in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Growth in the demand for natural gas largely depends on the health and expansion of the Southern California economy, prices of alternate energy products, environmental regulations, renewable energy, legislation, and the effectiveness of energy efficiency programs. External factors such as weather, the price of electricity, electric deregulation, the use of hydroelectric power, development of renewable energy resources, development of new natural gas supply sources, and general economic conditions can also result in significant shifts in demand and market price.

In 2008, SDG&E added 3,000 new customer natural gas meters at a growth rate of 0.4 percent; in 2007, it added 5,000 new meters at a growth rate of 0.7 percent. In 2008, SoCalGas added 41,000 new customer natural gas meters at a growth rate of 0.7 percent; in 2007, it added 57,000 new meters at a growth rate of 1.0 percent. SDG&E and SoCalGas expect that their respective growth rates will continue to decline in 2009 based on housing market forecasts and due to the continuing economic downturn.

The natural gas distribution business is seasonal, and revenues generally are greater during the winter months. As is prevalent in the industry, SoCalGas injects natural gas into storage during the summer months (usually April through October) for withdrawal from storage during the winter months (usually November through March) when customer demand is higher.

ELECTRIC UTILITY OPERATIONS

Customers

SDG&E's service area covers 4,100 square miles. At December 31, 2008, SDG&E had 1.4 million customer meters consisting of:

- § 1,217,200 residential
- § 147,600 commercial
- § 500 industrial
- § 2,000 street and highway lighting
- § 5,000 direct access

In 2008, SDG&E added 7,400 new electric customer meters at a growth rate of 0.5 percent; in 2007, it added 10,000 new customers at a growth rate of 0.7 percent. SDG&E expects that its growth rate will continue to decline in 2009 based on housing market forecasts and due to the continuing economic downturn.

Resource Planning and Power Procurement

SDG&E's resource planning, power procurement and related regulatory matters are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 14, 15 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

Electric Resources

The supply of electric power available to SDG&E for resale is based on CPUC-approved purchased-power contracts currently in place with its various suppliers, its Palomar and Miramar generating facilities, its 20-percent ownership interest in the San Onofre Nuclear Generating Station (SONGS) and purchases on a spot basis. This supply as of December 31, 2008 is as follows:

SDG&E ELECTRIC RESOURCES			
Supplier	Source	Expiration date	Megawatts (MW)
PURCHASED-POWER CONTRACTS:			
Department of Water Resources (DWR)- allocated contracts:			
JP Morgan	Natural gas	2009 to 2010	325
Sunrise Power Co. LLC	Natural gas	2012	570
Other (5 contracts)	Natural gas/Wind	2011 to 2013	259
Total			<u>1,154</u>
Other contracts with Qualifying Facilities* (QFs):			
Applied Energy Inc.	Cogeneration	2019	107
Yuma Cogeneration	Cogeneration	2024	53
Goal Line Limited Partnership	Cogeneration	2025	50
Other (19 contracts)	Cogeneration	2009 and thereafter	53
Total			<u>263</u>
Other contracts with renewable sources:			
Oasis Power Partners	Wind	2019	60
Kumeyaay	Wind	2025	50
Covanta Delano	Bio-mass	2017	49
Iberdola Renewables	Wind	2018	25
WTE/FPL	Wind	2019	17
Other (8 contracts)	Bio-gas/Hydro	2012 to 2022	31
Total			<u>232</u>
Other long-term and tolling contracts:			
Cabrillo Power I, LLC	Natural Gas	2009	964
Dynergy South Bay Holdings, LLC	Natural Gas	2009	704
Portland General Electric (PGE)	Coal	2013	89
Enernoc	Demand Response/Distributed Generation	2016	25
Total			<u>1,782</u>
Total contracted			<u>3,431</u>
GENERATION:			
Palomar	Natural Gas		550
SONGS	Nuclear		430
Miramar	Natural Gas		45
Total generation			<u>1,025</u>
TOTAL CONTRACTED AND GENERATION			<u>4,456</u>

* A QF is a generating facility which meets the requirements for QF status under the Public Utility Regulatory Policies Act of 1978. It includes cogeneration facilities, which produce electricity and another form of useful thermal energy (such as heat or steam) used for industrial, commercial, residential or institutional purposes. It also includes small power production facilities, which are generating facilities whose primary energy source is renewable (hydro, wind, solar, etc.), biomass, waste, or geothermal resources. Small power production facilities are generally limited in size to 80 MW.

Under the contract with PGE, SDG&E pays a capacity charge plus a charge based on the amount of energy received and/or PGE's non-fuel costs. Costs under most of the contracts with QFs are based on SDG&E's avoided cost. Charges under the remaining contracts are for firm and as-available energy, and are based on the amount of energy received or are tolls based on available capacity. The prices under these contracts are based on the market value at the time the contracts were negotiated.

Natural Gas Supply

SDG&E buys natural gas under short-term contracts for its Palomar and Miramar generating facilities and for the Cabrillo Power I, LLC and Dynergy South Bay Holdings, LLC tolling contracts. Purchases are from various southwestern U.S. suppliers and are primarily based on monthly and spot-market prices. SDG&E's natural gas is

delivered from southern California border receipt points to the SoCal CityGate pool via firm access rights which expire on March 31, 2011. The natural gas is then delivered from the SoCal CityGate pool to the generating facilities through SoCalGas' pipelines on a SoCalGas transportation agreement that expires on May 31, 2009. Prior to the expiration of this agreement, SDG&E intends to enter into a new transportation agreement with SoCalGas to meet its projected delivery requirements. SDG&E has also contracted with SoCalGas for natural gas storage from April 1, 2009 to March 31, 2010.

SDG&E also buys natural gas as the California DWR's limited agent for the DWR-allocated contracts. Most of the natural gas deliveries for the DWR-allocated contracts are transported through the Kern River Gas Transmission Pipeline under a long-term transportation agreement. The DWR is financially responsible for the costs of gas and transportation.

SONGS

SDG&E has a 20-percent ownership interest in SONGS, which is located south of San Clemente, California. SONGS consists of two operating nuclear generating units: Units 2 and 3. Unit 1 is permanently shut down and is being decommissioned. The city of Riverside owns 1.79 percent of Units 2 and 3, and Southern California Edison (Edison), the operator of SONGS, owns the remaining interests.

Units 2 and 3 began commercial operation in August 1983 and April 1984, respectively. SDG&E's share of the capacity is 214 MW of Unit 2 and 216 MW of Unit 3.

Unit 1 was removed from service in November 1992 when the CPUC issued a decision to permanently shut it down. The decommissioning of Unit 1 is now in progress and its spent nuclear fuel is being stored on site in an independent spent fuel storage installation (ISFSI) licensed by the NRC.

SDG&E has fully recovered its capital investment in SONGS through December 31, 2003 and earns a return only on subsequent capital additions, including SDG&E's share of costs associated with planned steam generator replacements.

We provide additional information concerning the SONGS units and nuclear decommissioning below in "Environmental Matters" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 7, 14 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

Nuclear Fuel Supply

The nuclear fuel supply cycle includes materials and services (uranium oxide, conversion of uranium oxide to uranium hexafluoride, uranium enrichment services, and fabrication of fuel assemblies) performed by others under various contracts that extend through 2020. The supply contracts are index-priced and provide nuclear fuel supply through 2022, the expiration of SONGS' NRC license.

Spent fuel from SONGS is being stored on site in both the ISFSI and spent fuel pools. Upon completion of the current phase of Unit 1 decommissioning, the site will have adequate space to build ISFSI storage capacity through 2022. Pursuant to the Nuclear Waste Policy Act of 1982, SDG&E entered into a contract with the U.S. Department of Energy (DOE) for spent-fuel disposal. Under the agreement, the DOE is responsible for the ultimate disposal of spent fuel from SONGS. SDG&E pays the DOE a disposal fee of \$1.00 per megawatt-hour of net nuclear generation, or \$3 million per year. The DOE projects that it will not begin accepting spent fuel until 2017 at the earliest.

We provide additional information concerning nuclear-fuel costs and the storage and movement of spent fuel in Notes 14 and 16, respectively, of the Notes to Consolidated Financial Statements in the Annual Report.

Power Pools

SDG&E is a participant in the Western Systems Power Pool, which includes an electric-power and transmission-rate agreement with utilities and power agencies located throughout the United States and Canada. More than 300 investor-owned and municipal utilities, state and federal power agencies, energy brokers and power marketers share power and information in order to increase efficiency and competition in the bulk power market. Participants are able to make power transactions on standardized terms preapproved by the FERC.

Transmission Arrangements

SDG&E's 500-kV Southwest Powerlink transmission line, which is shared with Arizona Public Service Company and Imperial Irrigation District, extends from Palo Verde, Arizona to San Diego, California. SDG&E's share of the line is 1,162 MW, although it can be less under certain system conditions.

Mexico's Baja California Norte system is connected to SDG&E's system via two 230-kV interconnections with firm capability of 408 MW in the north to south direction and 800 MW in the south to north direction.

In December 2008, the CPUC approved SDG&E's Sunrise Powerlink, a new 120-mile, 500-kV transmission line between the existing Imperial Valley Substation and a new central substation to be located within the SDG&E system. SDG&E is in the final engineering, design and procurement phase. SDG&E expects the line to be in commercial operation in 2012. The Sunrise Powerlink is designed to have a rating of 1,000 MW. We provide further discussion in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Transmission Access

The National Energy Policy Act governs procedures for requests for transmission service. The FERC approved the California investor-owned utilities' (IOUs) transfer of operation and control of their transmission facilities to the Independent System Operator (ISO) in 1998. We provide additional information regarding the FERC and transmission issues in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

RATES AND REGULATION – SEMPRA UTILITIES

We provide information concerning rates and regulation applicable to the Sempra Utilities in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 1, 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA GLOBAL

Sempra Global is a holding company for most of our subsidiaries that are not subject to California utility regulation. Sempra Global includes Sempra Commodities, Sempra Generation, Sempra Pipelines & Storage and Sempra LNG. We provide descriptions of these business units and information concerning their operations under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 1, 3, 4, 5, 16 and 17 of the Notes to Consolidated Financial Statements in the Annual Report.

Competition

Sempra Energy's non-utility businesses are among many others in the energy industry providing similar products and services. They are engaged in highly competitive activities that require significant capital investments and highly skilled and experienced personnel. Many of their competitors may have significantly greater financial, personnel and other resources than Sempra Global.

Sempra Commodities

Sempra Commodities is primarily comprised of our investment in RBS Sempra Commodities, a joint venture formed in April 2008. This partnership is discussed in Notes 3 and 4 of the Notes to Consolidated Financial Statements in the Annual Report. This business unit also includes Sempra Rockies Marketing, which holds firm service capacity on the Rockies Express Pipeline.

All aspects of RBS Sempra Commodities' business are intensely competitive and are expected to remain so. Sources of competition include the following:

- § other brokers and dealers,
- § investment banking firms,
- § energy companies, and
- § other companies that offer similar products and services in the U.S. and globally.

RBS Sempra Commodities' competition is based on a number of factors, including transaction execution, products and services, innovation, reputation and price.

RBS Sempra Commodities also faces intense competition in attracting and retaining qualified employees. RBS Sempra Commodities' ability to compete effectively will depend upon the ability to attract new employees and retain and motivate existing employees.

RBS Sempra Commodities' competitors include Goldman Sachs, JPMorgan, Morgan Stanley and Barclay's Capital.

Sempra Generation

For sales of non-contracted power, Sempra Generation is subject to competition from energy marketers, utilities, industrial companies and other independent power producers. For a number of years, natural gas has been the fuel of choice for new power generation facilities for economic, operational and environmental reasons. While natural gas-fired facilities will continue to be an important part of the nation's generation portfolio, some regulated utilities are now constructing units powered by renewable resources, often with subsidies or under legislative mandate. These utilities generally have a lower cost of capital than most independent power producers and often are able to recover fixed costs through rate base mechanisms. This recovery allows them to build, buy and upgrade generation without relying exclusively on market clearing prices to recover their investments.

When Sempra Generation sells power not subject to long-term contract commitments, it is exposed to market fluctuations in prices based on a number of factors, including the amount of capacity available to meet demand, the price and availability of fuel, and the presence of transmission constraints. Some of Sempra Generation's competitors, such as electric utilities and generation companies, have their own generation capacity, including nuclear generation. These companies, generally larger than Sempra Generation, may have a lower cost of capital and may have competitive advantages as a result of their scale and the location of their generation facilities.

Sempra Generation's competitors include

§ Edison Mission Energy	§ Reliant Energy
§ FPL Energy LLC	§ Mirant Energy
§ Calpine	§ Dynegy

Sempra Pipelines & Storage

Within its market area, Sempra Pipelines & Storage's natural gas storage facilities and pipelines compete with other storage facilities and pipelines (both regulated and unregulated systems). It competes primarily on the basis of price (in terms of storage and transportation fees), available capacity, and connections to downstream markets.

Sempra Pipelines & Storage's competitors include

§ Iberdrola (Enstor)	§ Kinder Morgan
§ Spectra Energy	§ Enterprise Product Partners LP
§ Energy Transfer Partners LP	§ Boardwalk Pipeline Partners
§ Plains All-American LP	§ El Paso Corporation
§ The Williams Companies	§ Various independent midstream asset developers
§ TransCanada	

Sempra LNG

New supplies to meet North America's natural gas demand may be developed from a combination of the following sources:

- § existing producing basins in the United States, Canada, and Mexico;
- § frontier basins in Alaska, northern Canada, and offshore deepwater;
- § areas currently restricted from exploration and development due to public policies, such as areas in the Rocky Mountains and offshore Atlantic, Pacific and Gulf of Mexico coasts; and
- § imported LNG.

In addition, the demand for energy currently met by natural gas could alternatively be met by other energy forms such as coal, hydroelectric, oil, wind, solar and nuclear energy. Sempra LNG will, therefore, face competition from each of these energy sources.

Sempra LNG competes with other companies to construct and operate LNG receiving terminals. According to the FERC, as of October 31, 2008, there were 10 existing LNG terminals in North America. There are six terminals currently under construction. In addition, as of December 31, 2008, there were 66 LNG receiving terminals in 18 countries. There are also other proposed LNG receiving terminals worldwide with which Sempra LNG will compete to be the most economical delivery point for LNG production of both long-term contracted and spot volumes.

Sempra LNG's U.S. competitors include

§ Cheniere Energy, Inc.	§ GDF Suez Energy International
§ El Paso Corporation	§ Dominion Resources, Inc.
§ Exxon Mobil Corporation	§ Southern Union Company
§ Excelerate Energy	

ENVIRONMENTAL MATTERS

We discuss environmental issues affecting us in Notes 14, 15 and 16 of the Notes to Consolidated Financial Statements in the Annual Report. You should read the following additional information in conjunction with those discussions.

Hazardous Substances

In 1994, the CPUC approved the Hazardous Waste Collaborative mechanism, allowing California's IOUs to recover hazardous waste cleanup costs for certain sites, including those related to certain Superfund sites. This mechanism permits the Sempra Utilities to recover in rates 90 percent of hazardous waste cleanup costs and related third-party litigation costs, and 70 percent of the related insurance-litigation expenses. In addition, the Sempra Utilities have the opportunity to retain a percentage of any recoveries from insurance carriers and other third parties to offset the cleanup and associated litigation costs not recovered in rates.

At December 31, 2008, we had accrued estimated remaining investigation and remediation liabilities of \$0.5 million at SDG&E and \$39.8 million at SoCalGas, both related to hazardous waste sites. These accruals include costs for numerous locations that had been manufactured-gas plants, for which the Hazardous Waste Collaborative mechanism authorizes us to recover 90 percent. This estimated cost excludes remediation costs of \$7.3 million associated with SDG&E's former fossil-fuel power plants and another location for which the cleanup costs are not being recovered in rates. We believe that any costs not ultimately recovered through rates, insurance or other means will not have a material adverse effect on our consolidated results of operations or financial position.

We record estimated liabilities for environmental remediation when amounts are probable and estimable. In addition, we record amounts authorized to be recovered in rates under the Hazardous Waste Collaborative mechanism as regulatory assets.

Air and Water Quality

The transmission and distribution of natural gas require the operation of compressor stations, which are subject to increasingly stringent air-quality standards, such as those established by the CARB. We discuss these standards in "Government Regulation – California Utility Regulation" above. The Sempra Utilities generally recover in rates the costs to comply with these standards.

In connection with the issuance of operating permits, SDG&E and the other owners of SONGS have an agreement with the California Coastal Commission to mitigate the environmental damage to the marine environment attributed to the cooling-water discharge from SONGS. SDG&E's share of the mitigation costs is estimated to be \$50 million, of which \$30.3 million had been incurred through December 31, 2008, and \$19.7 million is accrued for the remaining costs through 2050. In 2008, an artificial kelp reef project was completed. The remaining costs are to complete a wetlands project and maintain both projects through 2050.

OTHER MATTERS

Employees of Registrants

As of December 31, each company had the following number of employees:

	At December 31,	
	2008	2007
Sempra Energy Consolidated	13,673	14,314
SDG&E	4,833	4,774
SoCalGas	7,188	7,222

Labor Relations

Field, technical and most clerical employees at SoCalGas are represented by the Utility Workers Union of America or the International Chemical Workers Union Council. The collective bargaining agreement for these employees covering wages, hours, working conditions, and medical and other benefit plans expired on September 30, 2008. On January 31, 2009, SoCalGas and representatives of the unions reached a tentative agreement for a new collective bargaining agreement. To allow time for ratification of the collective bargaining agreement by the employees, it was also agreed to extend the terms and conditions of the existing contract through February 28, 2009.

Field, technical and some clerical employees at SDG&E are represented by the International Brotherhood of Electrical Workers. The collective bargaining agreement for these employees covering wages, hours and working conditions is in effect through August 31, 2011. For these same employees, the agreement covering health and welfare benefits is in effect through December 31, 2010, and the agreement covering pension benefits is in effect through December 4, 2009.

ITEM 1A. RISK FACTORS

When evaluating our company and its subsidiaries, you should consider carefully the following risk factors and all other information contained in this report. These risk factors could affect our actual results and cause such results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. Other risks and uncertainties, in addition to those that are described below, may also impair our business operations. If any of the following risks occurs, our business, cash flows, results of operations and financial condition could be seriously harmed. In addition, the trading price of our securities could decline due to the occurrence of any of these risks. These risk factors should be read in conjunction with the other detailed information concerning our company set forth in the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

Sempra Energy's cash flows, ability to pay dividends and ability to meet its debt obligations largely depend on the performance of its subsidiaries.

Sempra Energy's ability to pay dividends and meet its debt obligations depends on cash flows from its subsidiaries and, in the short term, its ability to raise capital from external sources. In the long term, cash flows from the subsidiaries depend on their ability to generate operating cash flows in excess of their own capital expenditures and long-term debt obligations. In addition, the subsidiaries are separate and distinct legal entities and could be precluded from making such distributions under certain circumstances, including as a result of legislation or regulation or in times of financial distress.

Our businesses may be adversely affected by conditions in the financial markets and economic conditions generally.

Our businesses are capital intensive and we rely significantly on short-term borrowings to fund a portion of day-to-day business operations and on long-term debt to fund a portion of our capital expenditures and refund outstanding debt.

The credit markets and financial services industry have been experiencing a period of extreme world-wide turmoil characterized by the bankruptcy, failure, collapse or sale of many financial institutions and by extraordinary levels of government intervention.

Limitations on the availability of credit and increases in interest rates or credit spreads may adversely affect our liquidity and results of operations. In difficult credit markets, we may find it necessary to fund our operations and capital expenditures at a higher cost or we may be unable to raise as much funding as we need to support business activities. This could cause us to reduce capital expenditures and could increase our cost of funding, both of which could reduce our short-term and long-term profitability.

The availability and cost of credit for our businesses may be greatly affected by credit ratings. If the credit ratings of SoCalGas or SDG&E were to be reduced, their businesses could be adversely affected and any reduction in Sempra Energy's ratings could adversely affect its non-utility subsidiaries.

Risks Related to All Sempra Energy Subsidiaries

Our businesses are subject to complex government regulations and may be adversely affected by changes in these regulations or in their interpretation or implementation.

In recent years, the regulatory environment that applies to the electric power and natural gas industries has undergone significant changes, on both federal and state levels. These changes have affected the nature of these industries and the manner in which their participants conduct their businesses. These changes are ongoing, and we cannot predict the future course of changes in this regulatory environment or the ultimate effect that this changing regulatory environment will have on our businesses. Moreover, existing regulations may be revised or reinterpreted, and new laws and regulations may be adopted or become applicable to us and our facilities. Future changes in laws and regulations may have a detrimental effect on our business, cash flows, financial condition and results of operations.

Our operations are subject to rules relating to transactions among the Sempra Utilities and other Sempra Energy operations. These rules are commonly referred to as the Affiliate Transaction Rules. These businesses could be adversely affected by changes in these rules or by additional CPUC or FERC rules that further restrict our ability to sell electricity or natural gas, or to trade with the Sempra Utilities and with each other. Affiliate Transaction Rules also could require us to obtain prior approval from the CPUC before entering into any such transactions with the Sempra Utilities. Any such restrictions or approval requirements could adversely affect the LNG receiving terminals, natural gas pipelines, electric generation facilities, or trading operations of our subsidiaries.

Sempra Generation has various proceedings, inquiries and investigations relating to its business activities currently pending before the FERC. A description of such proceedings, inquiries and investigations is provided in Note 16 of the Notes to Consolidated Financial Statements in the Annual Report.

Our businesses require numerous permits and other governmental approvals from various federal, state, local and foreign governmental agencies; any failure to obtain or maintain required permits or approvals could cause our sales to decline and/or our costs to increase.

All of our existing and planned development projects require multiple permits. The acquisition, ownership and operation of LNG receiving terminals, natural gas pipelines and storage facilities, and electric generation facilities require numerous permits, approvals and certificates from federal, state, local and foreign governmental agencies. If there is a delay in obtaining any required regulatory approvals or if we fail to obtain or maintain any required approvals or to comply with any applicable laws or regulations, we may not be able to operate our facilities, or we may be forced to incur additional costs.

Our businesses have significant environmental compliance costs, and future environmental compliance costs could adversely affect our profitability.

We are subject to extensive federal, state, local and foreign statutes, rules and regulations relating to environmental protection, including, in particular, global warming and greenhouse gas (GHG) emissions. We are required to obtain numerous governmental permits, licenses and other approvals to construct and operate our businesses. Additionally, to comply with these legal requirements, we must spend significant sums on environmental monitoring, pollution

control equipment, mitigation costs and emissions fees. In addition, we are generally responsible for all on-site liabilities associated with the environmental condition of our electric generation facilities and other energy projects, regardless of when the liabilities arose and whether they are known or unknown. If we fail to comply with applicable environmental laws, we may be subject to penalties, fines and/or curtailments of our operations.

The scope and effect of new environmental laws and regulations, including their effects on our current operations and future expansions, are difficult to predict. Increasing international, national, regional and state-level concerns as well as new or proposed legislation and regulation may have substantial effects on our operations, operating costs, and the scope and economics of proposed expansion. In particular, state-level laws and regulations, as well as proposed national and international legislation and regulation relating to GHG emissions (including carbon dioxide, methane, nitrogen oxide, hydrofluorocarbon, perfluorocarbon and sulfur hexafluoride), may limit or otherwise adversely affect our operations. The implementation of recent California legislation and proposed federal legislation may adversely affect our unregulated businesses by imposing additional costs associated with emission limits and the possible requirement of carbon taxes or the purchase of emissions credits. Similarly, the Sempra Utilities may be affected if costs are not recoverable in rates. The effects of significantly tougher standards may cause rates to increase to levels that substantially reduce customer demand and growth. In addition, SDG&E may be subject to penalties if certain mandated renewable energy goals are not met. We provide further discussion of these matters in Notes 14, 15 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

In addition, existing and future laws and regulation on mercury, nitrogen and sulfur oxides, particulates, or other emissions could result in requirements for additional pollution control equipment or emission fees and taxes that could adversely affect us. Moreover, existing rules and regulations may be interpreted or revised in ways that may adversely affect us and our facilities and operations. We provide additional information about these matters in Note 15 of the Notes to the Consolidated Financial Statements in the Annual Report.

Natural disasters, catastrophic accidents or acts of terrorism could materially adversely affect our business, earnings and cash flows.

Like other major industrial facilities, ours may be damaged by natural disasters, catastrophic accidents, or acts of terrorism. Such facilities include

- § generation § chartered oil and LNG tankers
- § electric transmission and distribution § natural gas pipelines and storage
- § LNG receipt terminals and storage

Such incidents could result in severe business disruptions, significant decreases in revenues, or significant additional costs to us. Any such incident could have a material adverse effect on our financial condition, earnings and cash flows.

Depending on the nature and location of the facilities affected, any such incident also could cause fires, leaks, explosions, spills or other significant damage to natural resources or property belonging to third parties, or cause personal injuries. Any of these consequences could lead to significant claims against us. Insurance coverage may become unavailable for certain of these risks, and any insurance proceeds we receive may be insufficient to cover our losses or liabilities, which could materially adversely affect our financial condition, earnings and cash flows.

Our future results of operations, financial condition, and cash flows may be materially adversely affected by the outcome of pending litigation against us.

Sempra Energy and its subsidiaries are defendants in numerous lawsuits. We have spent, and continue to spend, substantial amounts defending these lawsuits, and in related investigations and regulatory proceedings. In particular, SDG&E is subject to numerous lawsuits arising out of San Diego County wildfires in 2007, and Sempra Generation is subject to extensive litigation regarding a major long-term power agreement. We discuss these and other litigation in Note 16 of the Notes to Consolidated Financial Statements in the Annual Report. The uncertainties inherent in legal proceedings make it difficult to estimate with any degree of certainty the costs and effects of resolving these matters. In addition, California juries have demonstrated an increasing willingness to grant large awards, including punitive damages, in personal injury, product liability, property damage and other claims. Accordingly, actual costs incurred may differ materially from insured or reserved amounts and could materially adversely affect our business, cash flows, results of operations and financial condition.

We discuss these proceedings in Note 16 of the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

Risks Related to the Sempra Utilities

The Sempra Utilities are subject to extensive regulation by state, federal and local legislation and regulatory authorities, which may adversely affect the operations, performance and growth of their businesses.

The CPUC regulates the Sempra Utilities' rates, except SDG&E's electric transmission rates, which are regulated by the FERC. The CPUC also regulates the Sempra Utilities'

§ conditions of service	§ rates of depreciation
§ capital structure	§ long-term resource procurement
§ rates of return	§ sales of securities

The CPUC conducts various reviews and audits of utility performance, compliance with CPUC regulations and standards, affiliate relationships and other matters. These reviews and audits may result in disallowances and penalties that could adversely affect earnings and cash flows. We discuss various CPUC proceedings relating to the Sempra Utilities' rates, costs, incentive mechanisms, and performance-based regulation in Notes 14 and 15 of the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

The Sempra Utilities may spend funds related to a major capital project prior to receiving regulatory approval. If the project does not receive regulatory approval or if management decides not to proceed with the project, they may not be able to recover all amounts spent for that project, which could adversely affect earnings and cash flows.

The CPUC periodically approves the Sempra Utilities' rates based on authorized capital expenditures, operating costs and an authorized rate of return on investment. If actual capital expenditures and operating costs were to exceed the amount approved by the CPUC, earnings and cash flows could be adversely affected.

The CPUC applies performance-based measures and incentive mechanisms to all California utilities. Under these, income potential above authorized base margins is tied to achieving or exceeding specific performance and operating goals, rather than relying solely on expanding utility plant to increase earnings. At the Sempra Utilities, the areas that are eligible for incentives are operational activities such as employee safety, energy efficiency programs and, at SoCalGas, natural gas procurement. Although the Sempra Utilities have received incentive awards in the past, there can be no assurance that they will receive awards in the future, or that any future awards earned would be in amounts comparable to prior periods. Additionally, if the Sempra Utilities fail to achieve certain minimum performance levels established under such mechanisms, they may be assessed financial disallowances or penalties which could negatively affect earnings and cash flows. SoC aGas is also eligible for incentives, but is not subject to penalties, associated with unbundled gas storage activities.

The FERC regulates electric transmission rates, the transmission and wholesale sales of electricity in interstate commerce, transmission access, the rates of return on transmission investments, and other similar matters involving SDG&E.

The Sempra Utilities may be adversely affected by new regulations, decisions, orders or interpretations of the CPUC, the FERC or other regulatory bodies. New legislation, regulations, decisions, orders or interpretations could change how they operate, could affect their ability to recover various costs through rates or adjustment mechanisms, or could require them to incur additional expenses.

The construction and expansion of the Sempra Utilities' natural gas pipelines, SoCalGas' storage facilities, and SDG&E's electric transmission and distribution facilities require numerous permits and approvals from federal, state and local governmental agencies. If there are delays in obtaining required approvals, or failure to obtain or maintain required approvals, or to comply with applicable laws or regulations, the Sempra Utilities' business, cash flows, results of operations and financial condition could be materially adversely affected.

SDG&E may incur substantial costs and liabilities as a result of its ownership of nuclear facilities.

SDG&E has a 20-percent ownership interest in SONGS, a 2,150-MW nuclear generating facility near San Clemente, California, operated by Southern California Edison Company. The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. SDG&E's ownership interest in SONGS subjects it to the risks of nuclear generation, which include

- § the potential harmful effects on the environment and human health resulting from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;
- § limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with nuclear operations; and
- § uncertainties with respect to the technological and financial aspects of replacing steam generators or other equipment, and the decommissioning of nuclear plants.

Risks Related to our Electric Generation, LNG, Pipelines & Storage and Other Businesses

Our businesses are exposed to market risk, and our financial condition, results of operations, cash flows and liquidity may be adversely affected by fluctuations in commodity market prices that are beyond our control.

Sempra Generation generates electricity that it sells under long-term contracts and into the spot market or other competitive markets. It purchases natural gas to fuel its power plants and may also purchase electricity in the open market to satisfy its contractual obligations. As part of its risk management strategy, Sempra Generation may hedge a substantial portion of its electricity sales and natural gas purchases to manage its portfolio.

We buy energy-related and other commodities from time to time, for power plants or for LNG regasification terminals to satisfy contractual obligations with customers, in regional markets and other competitive markets in which we compete. Our revenues and results of operations could be adversely affected if the prevailing market prices for electricity, natural gas, LNG or other commodities that we buy change in a direction or manner not anticipated and for which we had not provided through purchase or sale commitments or other hedging transactions.

Unanticipated changes in market prices for energy-related and other commodities result from multiple factors, including:

- § weather conditions
- § seasonality
- § changes in supply and demand
- § transmission or transportation constraints or inefficiencies
- § availability of competitively priced alternative energy sources
- § commodity production levels
- § actions by the Organization of the Petroleum Exporting Countries with respect to the supply of crude oil
- § federal, state and foreign energy and environmental regulation and legislation
- § natural disasters, wars, embargoes and other catastrophic events
- § expropriation of assets by foreign countries

The FERC has jurisdiction over wholesale power and transmission rates, independent system operators, and other entities that control transmission facilities or that administer wholesale power sales in some of the markets in which we operate. In 2001, the FERC imposed price limitations that resulted in unexpected moves in electricity prices. In the future, the FERC may impose additional price limitations, bidding rules and other mechanisms, or terminate existing price limitations from time to time. Any such action by the FERC may result in prices for electricity changing in an unanticipated direction or manner and, as a result, may have an adverse effect on our sales and results of operations.

Business development activities may not be successful and projects under construction may not commence operation as scheduled, which could increase our costs and impair our ability to recover our investments.

The acquisition, development and construction of LNG receiving terminals, natural gas pipelines and storage facilities, electric generation facilities, and other energy infrastructure projects involve numerous risks. We may be required to spend significant sums for preliminary engineering, permitting, fuel supply, resource exploration, legal, and other expenses before we can determine whether a project is feasible, economically attractive, or capable of being built. Success in developing a particular project is contingent upon, among other things:

- § negotiation of satisfactory engineering, procurement and construction agreements
- § negotiation of supply and natural gas sales agreements or firm capacity service agreements
- § receipt of required governmental permits
- § timely implementation and satisfactory completion of construction

Successful completion of a particular project may be adversely affected by:

- § unforeseen engineering problems
- § construction delays and contractor performance shortfalls
- § work stoppages
- § equipment supply
- § adverse weather conditions
- § environmental and geological conditions
- § other factors

If we are unable to complete the development of a facility, we typically will not be able to recover our investment in the project.

The operation of existing and future facilities also involves many risks, including the breakdown or failure of generation or regasification and storage facilities or other equipment or processes, labor disputes, fuel interruption, and operating performance below expected levels. In addition, weather-related incidents and other natural disasters can disrupt generation, regasification, storage and transmission systems. The occurrence of any of these events could lead to operating facilities below expected capacity levels, which may result in lost revenues or increased expenses, including higher maintenance costs and penalties. Such occurrences could adversely affect our business, cash flows and results of operations.

We may elect not to, or may not be able to, enter into long-term supply and sales agreements or long-term firm capacity agreements for our projects, which would subject our sales to increased volatility and our businesses to increased competition.

The electric generation and wholesale power sales industries have become highly competitive. As more plants are built and competitive pressures increase, wholesale electricity prices may become more volatile. Without the benefit of long-term power sales agreements, such as the 10-year power sales agreement between Sempra Generation and the DWR that expires in 2011, our sales may be subject to increased price volatility. As a result, we may be unable to sell the power generated by Sempra Generation's facilities or operate those facilities profitably.

Sempra LNG utilizes its regasification terminals by entering into long-term firm capacity service agreements. Under these agreements, customers pay Sempra LNG fees to use its facilities to regasify the customer's LNG. Sempra LNG also may enter into long-term supply agreements to purchase LNG, which is regasified at its terminals for sale to other parties. The long-term supply agreement contracts are expected to substantially reduce our exposure to changes in natural gas prices through corresponding natural gas sales agreements or by tying supply prices to prevailing natural gas price market indices. However, if Sempra LNG is unable to obtain sufficient long-term agreements or if the counterparties, customers or suppliers to one or more of the key agreements for the LNG facilities were to fail or become unable to meet their contractual obligations on a timely basis, it could have a material adverse effect on our business, results of operations, cash flows and financial condition. In addition, reduced availability of LNG to the United States due to inadequate supplies, increased demand and higher prices in other countries, and delays in the development of new liquefaction capacity could affect the timing of development

of new LNG facilities and expansion of existing facilities. These conditions also are likely to delay near-term attainment of full-capacity utilization at our facilities. Our potential LNG suppliers also may be subject to international political and economic pressures and risks, which may also affect the supply of LNG.

Sempra Pipelines & Storage's natural gas pipeline operations are dependent on supplies of natural gas from their transportation customers, which may include Sempra LNG facilities.

Our businesses depend on counterparties, business partners, customers, and suppliers performing in accordance with their agreements. If they fail to perform, we could incur substantial expenses and be exposed to commodity price risk and volatility, which could adversely affect our liquidity, cash flows and results of operations.

We are exposed to the risk that counterparties, business partners, customers, and suppliers that owe money or commodities as a result of market transactions or other long-term agreements will not perform their obligations under such agreements. Should they fail to perform, we may be required to acquire alternative hedging arrangements or to honor the underlying commitment at then-current market prices. In such event, we may incur additional losses to the extent of amounts already paid to such counterparties or suppliers. In addition, we often extend credit to counterparties and customers. While we perform significant credit analyses prior to extending credit, we are exposed to the risk that we may not be able to collect amounts owed to us.

Sempra LNG's obligations and those of its suppliers for LNG supplies are contractually subject to 1) suspension or termination for "force majeure" events beyond the control of the parties; and 2) substantial limitations of remedies for other failures to perform, including limitations on damages to amounts that could be substantially less than those necessary to provide full recovery of capital for breach of the agreements.

If California's DWR were to succeed in setting aside, or were to fail to perform its obligations under its long-term power contract with Sempra Generation, our business, results of operations and cash flows will be materially adversely affected.

In 2001, Sempra Generation entered into a 10-year power sales agreement with the DWR to supply up to 1,900 MW to the state. The validity of the power sales agreement with the DWR continues to be the subject of extensive litigation between the parties before the FERC, in the courts and in arbitration proceedings. If the DWR were to succeed in setting aside its obligations under the contract, or if the DWR fails or is unable to meet its contractual obligations on a timely basis, it could have a material adverse effect on our business, results of operations, cash flows and financial condition. These proceedings are described in the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report. As described in Note 16 of the Notes to Consolidated Financial Statements, we unilaterally reduced our price to the DWR in connection with an agreement to settle other litigation.

We rely on transportation assets and services that we do not own or control to deliver electricity and natural gas.

We depend on electric transmission lines, natural gas pipelines, and other transportation facilities owned and operated by third parties to:

- 1) deliver the electricity and natural gas we sell to wholesale markets,
- 2) supply natural gas to our electric generation facilities, and
- 3) provide retail energy services to customers.

Sempra Pipelines & Storage also depends on natural gas pipelines to interconnect with their ultimate source or customers of the commodities they are transporting. Sempra LNG also relies on specialized ships to transport LNG to its facilities and on natural gas pipelines to transport natural gas for customers of the facilities. If transportation is disrupted, or if capacity is inadequate, our ability to sell and deliver our products and services may be hindered. As a result, we may be responsible for damages incurred by our customers, such as the additional cost of acquiring alternative supply at then-current spot market rates.

We cannot and do not attempt to fully hedge our assets or contract positions against changes in commodity prices. Therefore, our hedging procedures may not work as planned.

To reduce financial exposure related to commodity price fluctuations, we may enter into contracts to hedge our purchase and sale commitments, inventories of natural gas, and electric generation capacity. As part of this strategy,

we may use fixed-price, forward, physical purchase and sales contracts, futures, financial swaps, and options. However, we do not hedge the entire exposure to market price volatility of our assets or our contract positions and the coverage will vary over time. To the extent we have unhedged positions, or if our hedging strategies do not work as planned, fluctuating commodity prices could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Risk management procedures may not prevent losses.

Although we have in place risk management systems and control systems that use advanced methodologies to quantify and manage risk, these systems may not always prevent material losses. Risk management procedures may not always be followed as required by the companies or may not always work as planned. In addition, daily value-at-risk and loss limits are based on historic price movements. If prices significantly or persistently deviate from historic prices, the limits may not protect us from significant losses. As a result of these and other factors, there is no assurance that our risk management procedures will prevent losses that would negatively affect our business, results of operations, cash flows and financial condition.

Our international businesses are exposed to different local, regulatory and business risks and challenges, which could have a material adverse effect on our financial condition, cash flows and results of operations.

We have interests in electricity generation and transmission, natural gas distribution and transportation, and LNG terminal projects in Mexico. Sempra Pipelines & Storage has ownership interests in electricity and natural gas distribution businesses in Argentina, Chile and Peru. We have an ownership interest in RBS Sempra Commodities, which has trading, marketing and risk management operations in Canada, Europe and Asia. Developing infrastructure projects, owning energy assets, and operating businesses in foreign jurisdictions subject us to significant political, legal and financial risks that vary by country, including:

- § changes in foreign laws and regulations, including tax and environmental laws and regulations, and U.S. laws and regulations related to foreign operations
- § high rates of inflation
- § changes in government policies or personnel
- § trade restrictions
- § limitations on U.S. company ownership in foreign countries
- § permitting and regulatory compliance
- § changes in labor supply and labor relations in operations outside the U.S.
- § adverse rulings by foreign courts or tribunals, challenges to permits, difficulty in enforcing contractual rights, and unsettled property rights and titles in Mexico and other foreign jurisdictions
- § general political, economic and business conditions

Our international businesses also are subject to foreign currency risks. These risks arise from both volatility in foreign currency exchange and inflation rates and devaluations of foreign currencies. In such cases, an appreciation of the U.S. dollar against a local currency could reduce the amount of cash and income received from those foreign subsidiaries. Fluctuations in foreign currency exchange and inflation rates may result in increased taxes in foreign countries. While Sempra Pipelines & Storage believes that it has contracts and other measures in place to mitigate its most significant foreign currency exchange risks, some exposure is not fully mitigated.

Other Risks

Sempra Energy has substantial investments and other obligations in businesses that it does not control or manage.

Sempra Energy is a partner with The Royal Bank of Scotland (RBS) in RBS Sempra Commodities, a commodities-marketing firm in which we invested \$1.6 billion. RBS, which has been greatly affected by the world-wide turmoil in banking and is now indirectly controlled by the government of the United Kingdom, is obligated to provide all of the additional capital required for the operation and expansion of the commodities-marketing business.

We also own a 25-percent interest in Rockies Express, a joint venture which is completing construction of a 1,679-mile natural gas pipeline at an estimated cost of approximately \$6.2 billion. Rockies Express is controlled by Kinder Morgan Energy Partners, which holds a 51-percent interest.

We have also guaranteed a portion of the debt and other obligations of RBS Sempra Commodities and debt of Rockies Express as we discuss in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report. We also have smaller investments in other entities that we do not control or manage.

We do not control and have limited influence over these businesses and their management. In addition to the other risks inherent in these businesses, if their management were to fail to perform adequately or the other investors in the businesses were unable or otherwise failed to perform their obligations to provide capital and credit support for these businesses, it could have a material adverse affect on our results of operations, financial position and cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

ELECTRIC PROPERTIES – SDG&E

At December 31, 2008, SDG&E owns two natural gas-fired power plants:

§ a 550-MW electric generation facility (the Palomar generation facility) in Escondido, California, and

§ a 45-MW electric generation facility (the Miramar generation facility) in San Diego, California.

SDG&E has exercised its option to purchase the 480-MW natural gas-fired power plant located in El Dorado, Nevada from Sempra Generation in 2011. In January 2009, the CPUC approved SDG&E's application to construct a 46.5-MW natural gas-fired peaking plant in San Diego next to the Miramar generation facility noted above.

SDG&E's interest in SONGS is described above in "Electric Utility Operations – SONGS."

At December 31, 2008, SDG&E's electric transmission and distribution facilities included substations, and overhead and underground lines. These electric facilities are located in San Diego, Imperial and Orange counties of California and in Arizona. The facilities consist of 1,868 miles of transmission lines and 22,198 miles of distribution lines. Periodically, various areas of the service territory require expansion to accommodate customer growth.

NATURAL GAS PROPERTIES – SEMPRA UTILITIES

At December 31, 2008, SDG&E's natural gas facilities, which are located in San Diego and Riverside counties of California, consisted of the Moreno and Rainbow compressor stations, 168 miles of transmission pipelines, 8,389 miles of distribution mains, and 6,320 miles of service lines.

At December 31, 2008, SoCalGas' natural gas facilities included 2,890 miles of transmission and storage pipelines, 53,499 miles of distribution pipelines and 47,190 miles of service pipelines. They also included 11 transmission compressor stations and 4 underground natural gas storage reservoirs with a combined working capacity of 131 billion cubic feet (Bcf).

ENERGY PROPERTIES – SEMPRA GLOBAL

At December 31, 2008, Sempra Generation operates power plants in California, Arizona, Nevada and Mexico with a total capacity of 2,640 MW. We provide additional information in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 3 and 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Generation leases or owns property in Arizona, Nevada and Mexico for potential development of solar and wind electric generation facilities.

At December 31, 2008, Sempra Pipelines & Storage's operations in Mexico included 1,837 miles of distribution pipelines, 203 miles of transmission pipelines and 2 compressor stations.

Sempra Pipelines & Storage leases land in Calcasieu Parish, Louisiana, where its Liberty Gas Storage natural gas storage facility is under construction. In 2006, Sempra Pipelines & Storage and Proliance Transportation and Storage, LLC acquired three existing salt caverns representing 10 Bcf to 12 Bcf of potential natural gas storage capacity in Cameron Parish, Louisiana, that is currently being developed into a natural gas storage facility.

Sempra Pipelines & Storage operates Mobile Gas, a small natural gas distribution utility located in Mobile and Baldwin counties in Alabama. Its property consists of distribution mains, service lines and regulating equipment.

In Washington County, Alabama, Sempra Pipelines & Storage operates an 11.4 Bcf natural gas storage facility under a land lease, with plans to expand total working capacity to 27 Bcf, and also owns land in Simpson County, Mississippi, with plans to develop natural gas storage with a working capacity of 30 Bcf.

Sempra LNG operates an LNG receipt terminal on land it owns in Baja California, Mexico and has a land lease in Hackberry, Louisiana, where its Cameron LNG receipt terminal is under construction. Sempra LNG also owns land in Port Arthur, Texas, for potential development.

OTHER PROPERTIES

Sempra Energy occupies its 19-story corporate headquarters building in San Diego, California, pursuant to an operating lease that expires in 2015. The lease has two five-year renewal options.

SoCalGas leases approximately half of a 52-story office building in downtown Los Angeles, California, pursuant to an operating lease expiring in 2011. The lease has six five-year renewal options.

SDG&E occupies a six-building office complex in San Diego pursuant to two separate operating leases, both ending in December 2017. One lease has four five-year renewal options and the other lease has three five-year renewal options.

Sempra Global leases office facilities at various locations in the U.S. and Mexico with the leases ending from 2008 to 2035.

Sempra Energy, SDG&E and SoCalGas own or lease other land, easements, rights of way, warehouses, offices, operating and maintenance centers, shops, service facilities and equipment necessary in the conduct of their business.

ITEM 3. LEGAL PROCEEDINGS

We are not party to, and our property is not the subject of, any material pending legal proceedings (other than ordinary routine litigation incidental to our businesses) except for the matters 1) described in Notes 14, 15 and 16 of the Notes to Consolidated Financial Statements, or 2) referred to in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

The Los Angeles Regional Water Quality Control Board has asserted that SoCalGas violated the California Water Code in connection with certain maintenance activities in Los Angeles County's Sullivan Canyon. In June 2008, the board dismissed without prejudice a related lawsuit to provide an opportunity for the parties to resolve this matter

without litigation. SoCalGas believes that any resolution will impose upon it fines and penalties of no more than \$525,000.

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

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

None.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The common stock, related shareholder, and dividend restriction information required by Item 5 is included in "Common Stock Data" in the Annual Report.

PERFORMANCE GRAPH -- COMPARATIVE TOTAL SHAREHOLDER RETURNS

The performance graph required by Item 5 is provided in "Performance Graph – Comparative Total Shareholder Returns" in the Annual Report.

SEMPRA ENERGY EQUITY COMPENSATION PLANS

In May 2008, Sempra Energy's 2008 Long Term Incentive Plan was approved by shareholders and replaced our 1998 Long Term Incentive Plan and our Employee Stock Incentive Plan. These plans permit the grant of a wide variety of equity and equity-based incentive awards to officers and key employees. The 2008 Long Term Incentive Plan also replaced our Non-Employee Directors Stock Plan and provides for automatic annual grants of stock options to non-employee directors.

The Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals ("the Plan") authorizes the issuance of up to 302,478 shares of Sempra Energy common stock. In connection with our acquisition of EnergySouth in October 2008, we adopted the Plan to utilize the shares remaining available for future awards under the 2008 Incentive Plan of EnergySouth, Inc. (the "Prior Plan"). All awards outstanding under the Prior Plan at the time of the acquisition were cancelled and the holders were paid the merger consideration in accordance with the terms of the merger agreement. The Plan provides for the grant of substantially the same types of share-based awards (other than incentive stock options) that are available under the Sempra Energy 2008 Long Term Incentive Plan.

At December 31, 2008, outstanding awards consisted of stock options, restricted stock, and restricted stock units held by 326 employees.

The following table sets forth information regarding our equity compensation plans at December 31, 2008.

	Number of shares to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-average exercise price of outstanding options, warrants and rights	Number of additional shares remaining available for future issuance
Equity compensation plans approved by shareholders:			
2008 Long Term Incentive Plan	6,852,256	\$ 36.42	6,993,761 (B)
Equity compensation plans not approved by shareholders:			
2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals (C)	--	\$ --	302,478 (D)
Total	6,852,256	\$ 36.42	7,296,239

(A) Consists solely of options to purchase shares of our common stock, all of which were granted at an exercise price of 100% of the grant date fair market value of the shares subject to the option.

(B) The number of shares available for future issuance is increased by the number of shares withheld to satisfy related tax withholding obligations relating to stock option and other plan awards and by the number of shares subject to awards that lapse, expire or are otherwise terminated or are settled other than by the issuance of shares.

(C) Adopted in connection with our acquisition of EnergySouth in October 2008 to utilize shares remaining available under the 2008 Incentive Plan of EnergySouth, Inc., which had been previously approved by EnergySouth shareholders.

(D) The number of shares available for future issuance is increased by the number of shares subject to awards that terminate without the issuance of shares.

We provide additional discussion of share-based compensation in Note 10 of the Notes to Consolidated Financial Statements in the Annual Report.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

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

On April 1, 2008, we entered into a Collared Accelerated Share Acquisition Program with Merrill Lynch International. Under this program, we paid \$1 billion to repurchase shares of our common stock. We discuss this repurchase in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

The following table sets forth information concerning purchases made by us, from the programs authorized above, of our common stock during the fourth quarter of 2008:

	Total Number of Shares Purchased (1)	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that may Yet be Purchased Under the Plans or Programs
October 2008	3,008,280	\$ 54.30	3,008,280	
November 2008	--	\$ --	--	
December 2008	--	\$ --	--	
	<u>3,008,280</u>	<u>\$ 54.30</u>	<u>3,008,280</u>	<u>\$1 billion remaining (2)(3)</u>

(1) Our publicly announced Collared Accelerated Share Acquisition Program that began in April 2008 was completed on October 13, 2008. A total of 18,416,241 shares were purchased at a weighted average price of \$54.30 per share under this program, 3,008,280 of which were received in October 2008. Additional information regarding the program is provided in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

(2) Approximately \$1 billion remains authorized by our board of directors to purchase additional shares. However, we do not expect to repurchase any common shares in 2009, except as we discuss in (3) below.

(3) We may, from time to time, purchase shares of our common stock from holders of our restricted stock and restricted stock units in amounts sufficient to meet minimum statutory tax withholding requirements upon vesting.

ITEM 6. SELECTED FINANCIAL DATA

The information required by Item 6 is included in "Five-Year Summaries" in the Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by Item 7 is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report, on pages 1 to 55.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 7A is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk" in the Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Item 8 is set forth on pages 69 through 189 of the Annual Report. Item 15(a)1 includes a listing of financial statements included.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

The information required by Item 9A is provided in "Controls and Procedures" in the Annual Report.

ITEM 9B. OTHER INFORMATION

On February 19, 2009, the Compensation Committee of the Sempra Energy board of directors awarded Mark A. Snell, an Executive Vice President and the Chief Financial Officer of Sempra Energy, a performance-based restricted stock award under Sempra Energy's shareholder approved 2008 Long Term Incentive Plan. The award consists of 14,880 restricted shares of Sempra Energy common stock. Subject to the satisfaction of performance criteria, the restricted shares (together with additional restricted shares attributable to reinvested dividends) are scheduled to vest in equal annual installments of one-third of the shares initially subject to the award. However, each installment of restricted shares will be forfeited if we have not achieved positive operating income for the year prior to the scheduled vesting date. In addition, the Compensation Committee may at any time reduce the number of unvested shares remaining subject to the award if it determines that the principal objectives for the formation of RBS Sempra Commodities, a joint venture between Sempra Energy and The Royal Bank of Scotland, are not continuing to be achieved. Unvested shares also will be forfeited if Mr. Snell's employment with Sempra Energy and its subsidiaries were to terminate for any reason other than his death.

The award to Mr. Snell is in addition to customary awards of service-based stock options and performance-based restricted stock units granted to officers and other employees of Sempra Energy at the beginning of each year under Sempra Energy's 2008 Long Term Incentive Plan.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

SEMPRA ENERGY

The information required by Item 10 for Sempra Energy is incorporated by reference from "Corporate Governance" and "Share Ownership" in the Proxy Statement prepared for the April 2009 annual meeting of shareholders. The information required on our executive officers is provided below.

EXECUTIVE OFFICERS OF THE REGISTRANT		
Name	Age*	Position*
Donald E. Felsing	61	Chairman and Chief Executive Officer
Neal E. Schmale	62	President and Chief Operating Officer
Javade Chaudhri	56	Executive Vice President and General Counsel
Edwin A. Guiles	59	Executive Vice President - Corporate Development
Jessie J. Knight, Jr.	58	Executive Vice President - External Affairs
Mark A. Snell	52	Executive Vice President and Chief Financial Officer
Joseph A. Householder	53	Senior Vice President, Controller and Chief Accounting Officer
Charles A. McMonagle	59	Senior Vice President and Treasurer
G. Joyce Rowland	54	Senior Vice President - Human Resources

* As of February 24, 2009.

Each executive officer has been an officer of Sempra Energy or one of its subsidiaries for more than five years, except for Mr. Knight. Prior to joining Sempra Energy in 2006, Mr. Knight served as President and CEO of the San Diego Regional Chamber of Commerce since 1999.

SDG&E, PE AND SOCALGAS

The information required by Item 10 for SDG&E, PE and SoCalGas is incorporated by reference from the Information Statement prepared for the June 2009 annual meeting of shareholders. The information required on the executive officers is set forth below.

EXECUTIVE OFFICERS OF THE REGISTRANTS

Name	Age*	Position*
SAN DIEGO GAS & ELECTRIC COMPANY		
Debra L. Reed	52	Chairperson, President and Chief Executive Officer
Michael R. Niggli	59	Chief Operating Officer
James P. Avery	52	Senior Vice President - Electric
Lee Schavrien	54	Senior Vice President - Regulatory and Finance
Anne S. Smith	55	Senior Vice President - Customer Services
W. Davis Smith	59	Senior Vice President and General Counsel
Lee M. Stewart	63	Senior Vice President - Gas Operations
Robert M. Schlax	53	Vice President, Controller and Chief Financial Officer

PACIFIC ENTERPRISES

Debra L. Reed	52	Chairperson, President and Chief Executive Officer
Michael R. Niggli	59	Chief Operating Officer
Robert M. Schlax	53	Vice President, Controller and Chief Financial Officer

SOUTHERN CALIFORNIA GAS COMPANY

Debra L. Reed	52	Chairperson, President and Chief Executive Officer
Michael R. Niggli	59	Chief Operating Officer
Lee Schavrien	54	Senior Vice President - Regulatory and Finance
Anne S. Smith	55	Senior Vice President - Customer Services
W. Davis Smith	59	Senior Vice President and General Counsel
Lee M. Stewart	63	Senior Vice President - Gas Operations
Robert M. Schlax	53	Vice President, Controller and Chief Financial Officer

* As of February 24, 2009.

Each executive officer of SDG&E, PE and SoCalGas has been an officer or employee of Sempra Energy or its subsidiaries for more than five years, with the exception of Mr. Schlax. Prior to joining SDG&E in 2005, Mr. Schlax was Chief Financial Officer, Treasurer and Vice President of Finance of Mercury Air Group, Inc. since 2002. Except for Mr. Avery, each executive officer of SDG&E holds the same position at SoCalGas.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from "Corporate Governance," and "Executive Compensation," including "Compensation Discussion and Analysis," and "Compensation Committee Report" in the Proxy Statement prepared for the April 2009 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2009 annual meeting of shareholders for SDG&E, PE and SoCalGas.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

Information regarding securities authorized for issuance under equity compensation plans as required by Item 12 is included in Item 5.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The security ownership information required by Item 12 is incorporated by reference from "Share Ownership" in the Proxy Statement prepared for the April 2009 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2009 annual meeting of shareholders for SDG&E, PE and SoCalGas.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference from "Corporate Governance" in the Proxy Statement prepared for the April 2009 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2009 annual meeting of shareholders for SDG&E, PE and SoCalGas.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services, as required by Item 14, is incorporated by reference from "Proposals To Be Voted On - Proposal 2: Ratification of Independent Registered Public Accounting Firm" in the Proxy Statement prepared for the April 2009 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2009 annual meeting of shareholders for SDG&E, PE and SoCalGas.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. FINANCIAL STATEMENTS

	Page in Annual Report*			
	Sempra Energy	San Diego Gas & Electric Company	Pacific Enterprises	Southern California Gas Company
Management's Report On Internal Control Over Financial Reporting	60	60	60	60
Reports of Independent Registered Public Accounting Firm	61	63	65	67
Statements of Consolidated Income for the years ended December 31, 2008, 2007 and 2006	69	75	81	87
Consolidated Balance Sheets at December 31, 2008 and 2007	70	76	82	88
Statements of Consolidated Cash Flows for the years ended December 31, 2008, 2007 and 2006	72	78	84	90
Statements of Consolidated Comprehensive Income and Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006	74	80	86	92
Notes to Consolidated Financial Statements	93	93	93	93

* Incorporated by reference from the indicated pages of the 2008 Annual Report to Shareholders, filed as Exhibit 13.1.

2. FINANCIAL STATEMENT SCHEDULES

Sempra Energy

Schedule I--Sempra Energy Condensed Financial Information of Parent may be found on page 38.

Pacific Enterprises

Schedule I--Pacific Enterprises Condensed Financial Information of Parent may be found on page 42.

Any other schedule for which provision is made in Regulation S-X is not required under the instructions contained therein, is inapplicable or the information is included in the Consolidated Financial Statements and notes thereto.

3. EXHIBITS

See Exhibit Index on page 48 of this report.

(c) RBS Sempra Commodities LLP and Subsidiaries – Consolidated Financial Statements as of December 31, 2008 and for the Period From April 1, 2008 (Date of Commencement) to December 31, 2008 and Report of Independent Registered Public Accounting Firm are provided in Exhibit 99.1.

SEMPRA ENERGY

To the Board of Directors and Shareholders of Sempra Energy:

We consent to the incorporation by reference in Registration Statement No. 333-153425 on Form S-3 and 333-56161, 333-50806, 333-49732, 333-121073, 333-128441, 333-151184, and 333-155191 on Form S-8 of our reports dated February 23, 2009, relating to the consolidated financial statements of Sempra Energy and subsidiaries ("the Company") and the effectiveness of the Company's internal control over financial reporting, incorporated by reference in this Annual Report on Form 10-K of Sempra Energy for the year ended December 31, 2008.

Our audits of the financial statements referred to in our aforementioned report relating to the consolidated financial statements also included the financial statement schedule of the Company, listed in Item 15. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

SAN DIEGO GAS & ELECTRIC COMPANY

To the Board of Directors and Shareholders of San Diego Gas & Electric Company:

We consent to the incorporation by reference in Registration Statement No. 333-133541 on Form S-3 of our reports dated February 23, 2009, relating to the consolidated financial statements of San Diego Gas & Electric Company and subsidiary ("the Company") and the effectiveness of the Company's internal control over financial reporting, incorporated by reference in this Annual Report on Form 10-K of San Diego Gas & Electric Company for the year ended December 31, 2008.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

SOUTHERN CALIFORNIA GAS COMPANY

To the Board of Directors and Shareholders of Southern California Gas Company:

We consent to the incorporation by reference in Registration Statement No. 333-134289 on Form S-3 of our reports dated February 23, 2009, relating to the consolidated financial statements of Southern California Gas Company and subsidiaries (the "Company") and the effectiveness of the Company's internal control over financial reporting, incorporated by reference in this Annual Report on Form 10-K of Southern California Gas Company for the year ended December 31, 2008.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PACIFIC ENTERPRISES

To the Board of Directors and Shareholders of Pacific Enterprises:

We have audited the consolidated financial statements of Pacific Enterprises and subsidiaries (the "Company") as of December 31, 2008 and 2007, and for each of the three years in the period ended December 31, 2008, and the Company's internal control over financial reporting as of December 31, 2008, and have issued our reports thereon dated February 23, 2009; such consolidated financial statements and reports are included in your 2008 Annual Report to Shareholders and are incorporated by reference herein. Our audits also included the financial statement schedule of the Company listed in Item 15. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

SCHEDULE I – SEMPRA ENERGY CONDENSED FINANCIAL INFORMATION OF PARENT

SEMPRA ENERGY			
CONDENSED STATEMENTS OF INCOME			
<i>(Dollars in millions, except per share amounts)</i>			
	Years ended December 31,		
	2008	2007	2006
Interest income	\$ 104	\$ 166	\$ 188
Interest expense	(130)	(178)	(202)
Operation and maintenance	(64)	(105)	(120)
Other income (expense), net	(63)	58	21
Income tax benefits	93	38	61
Loss before equity in earnings of subsidiaries	(60)	(21)	(52)
Equity in earnings of subsidiaries	1,173	1,120	1,458
Net income	<u>\$ 1,113</u>	<u>\$ 1,099</u>	<u>\$ 1,406</u>
Basic earnings per share:			
Net income	<u>\$ 4.50</u>	<u>\$ 4.24</u>	<u>\$ 5.48</u>
Weighted-average number of shares outstanding (thousands)	<u>247,387</u>	<u>259,269</u>	<u>256,477</u>
Diluted earnings per share:			
Net income	<u>\$ 4.43</u>	<u>\$ 4.16</u>	<u>\$ 5.38</u>
Weighted-average number of shares outstanding (thousands)	<u>251,159</u>	<u>264,004</u>	<u>261,368</u>

See Notes to Condensed Financial Information of Parent (Sempra Energy).

SEMPRA ENERGY
CONDENSED BALANCE SHEETS
(Dollars in millions)

	December 31, 2008	December 31, 2007
Assets:		
Cash and cash equivalents	\$ 12	\$ 6
Short-term investments	152	--
Due from affiliates	28	103
Income taxes receivable	299	210
Other current assets	9	31
Total current assets	<u>500</u>	<u>350</u>
Investments in subsidiaries	9,644	8,766
Due from affiliates	2,365	2,298
Other assets	811	784
Total assets	<u>\$ 13,320</u>	<u>\$ 12,198</u>
Liabilities and Shareholders' Equity:		
Current portion of long-term debt	\$ 300	\$ --
Due to affiliates	1,876	1,708
Other current liabilities	307	344
Total current liabilities	<u>2,483</u>	<u>2,052</u>
Long-term debt	2,233	1,290
Other long-term liabilities	635	517
Shareholders' equity	7,969	8,339
Total liabilities and shareholders' equity	<u>\$ 13,320</u>	<u>\$ 12,198</u>

See Notes to Condensed Financial Information of Parent (Semptra Energy).

SEMPRA ENERGY
CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
Net cash provided by operating activities	\$ 173	\$ 240	\$ 322
Dividends received from subsidiaries	350	150	150
Expenditures for property, plant and equipment	(4)	(13)	(19)
Expenditures for short-term investments	(640)	--	--
Proceeds from sale of short-term investments	488	--	--
Increase in investments and other assets	(8)	(4)	(207)
Purchase of trust assets	(9)	(59)	(65)
Proceeds from sales by trust	2	21	19
Decrease (increase) in loans to affiliates, net	(149)	532	(23)
Cash provided by (used in) investing activities	30	627	(145)
Common stock dividends paid	(339)	(316)	(283)
Issuances of common stock	18	40	97
Repurchases of common stock	(1,018)	(185)	(37)
Issuances of long-term debt	1,247	82	--
Payments on long-term debt	(11)	(990)	(12)
Increase (decrease) in loans from affiliates, net	(102)	59	273
Other	8	22	29
Cash provided by (used in) financing activities	(197)	(1,288)	67
Increase (decrease) in cash and cash equivalents	6	(421)	244
Cash and cash equivalents, January 1	6	427	183
Cash and cash equivalents, December 31	\$ 12	\$ 6	\$ 427

See Notes to Condensed Financial Information of Parent (Sempra Energy).

NOTES TO CONDENSED FINANCIAL INFORMATION OF PARENT

Note 1. Basis of Presentation

Sempra Energy accounts for the earnings of its subsidiaries under the equity method in this unconsolidated financial information.

Other Income (Expense), Net, on the Condensed Statements of Income includes \$53 million of losses in 2008 and \$27 million of gains in 2007 associated with investment earnings or losses on dedicated assets in support of our executive retirement and deferred compensation plans. It also included \$57 million from Mexican peso exchange losses in 2008.

Equity in Earnings of Subsidiaries on the Condensed Statements of Income includes a loss of \$26 million in 2007 and income of \$315 million in 2006 related to discontinued operations.

Because of its nature as a holding company, Sempra Energy classifies dividends received from subsidiaries as an investing cash flow.

Note 2. Long-Term Debt

<i>(Dollars in millions)</i>	December 31, 2008	December 31, 2007
9.8% Notes February 15, 2019	\$ 500	\$ --
6.15% Notes June 15, 2018	500	--
6.0% Notes February 1, 2013	400	400
Notes at variable rates after fixed-to-floating swap (5.06% at December 31, 2008) March 1, 2010	300	300
4.75% Notes May 15, 2009	300	300
8.9% Notes November 15, 2013	250	--
7.95% Notes March 1, 2010	200	200
Employee Stock Ownership Plan		
Bonds at 5.781% (fixed rate to July 1, 2010) November 1, 2014	50	50
Bonds at variable rates (5.26% at December 31, 2008) November 1, 2014	22	33
Market value adjustments for interest-rate swap, net (expires March 1, 2010)	15	8
	<u>2,537</u>	<u>1,291</u>
Current portion of long-term debt	(300)	--
Unamortized discount on long-term debt	(4)	(1)
Total long-term debt	<u>\$ 2,233</u>	<u>\$ 1,290</u>

Maturities of long-term debt, excluding market value adjustments for the interest-rate swap, are \$300 million in 2009, \$500 million in 2010, \$650 million in 2013 and \$1.1 billion thereafter.

Additional information on Sempra Energy's long-term debt is provided in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

Note 3. Commitments and Contingencies

For contingencies and guarantees related to Sempra Energy, refer to Notes 6 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

SCHEDULE I – PACIFIC ENTERPRISES CONDENSED FINANCIAL INFORMATION OF PARENT

PACIFIC ENTERPRISES
CONDENSED STATEMENTS OF INCOME

(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
Interest and other income	\$ 11	\$ 23	\$ 35
Expenses, interest and income taxes	7	15	23
Income before equity in earnings of subsidiaries	4	8	12
Equity in earnings of subsidiaries	244	230	223
Earnings applicable to common shares	\$ 248	\$ 238	\$ 235

See Notes to Condensed Financial Information of Parent (Pacific Enterprises).

PACIFIC ENTERPRISES
CONDENSED BALANCE SHEETS

(Dollars in millions)

	December 31, 2008	December 31, 2007
Assets:		
Current assets	\$ 72	\$ 219
Investment in subsidiary	1,470	1,450
Due from affiliates long-term	457	457
Deferred charges and other assets	37	39
Total assets	\$ 2,036	\$ 2,165
Liabilities and Shareholders' Equity:		
Due to affiliates	\$ 84	\$ 232
Other current liabilities	1	1
Total current liabilities	85	233
Long-term liabilities	11	16
Common equity	1,860	1,836
Preferred stock	80	80
Total liabilities and shareholders' equity	\$ 2,036	\$ 2,165

See Notes to Condensed Financial Information of Parent (Pacific Enterprises).

PACIFIC ENTERPRISES
CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
Net cash provided by operating activities	\$ 5	\$ 14	\$ 38
Dividends received from subsidiaries	350	150	150
Increase in loans to affiliates, net	(1)	(9)	(33)
Other	--	(1)	(1)
Cash provided by investing activities	349	140	116
Common stock dividends paid	(350)	(150)	(150)
Preferred dividends paid	(4)	(4)	(4)
Cash used in financing activities	(354)	(154)	(154)
Change in cash and cash equivalents	--	--	--
Cash and cash equivalents, January 1	--	--	--
Cash and cash equivalents, December 31	\$ --	\$ --	\$ --

See Notes to Condensed Financial Information of Parent (Pacific Enterprises).

PACIFIC ENTERPRISES

NOTES TO CONDENSED FINANCIAL INFORMATION OF PARENT

Note 1. Basis of Presentation

Pacific Enterprises accounts for the earnings of its subsidiaries under the equity method in this unconsolidated financial information.

Because of its nature as a holding company, Pacific Enterprises classifies dividends received from subsidiaries as an investing cash flow.

Note 2. Commitments and Contingencies

For contingencies related to Pacific Enterprises, refer to Note 16 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Energy:**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEMPRA ENERGY,
(Registrant)

By: /s/ Donald E. Felsing

Donald E. Felsing
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name/Title	Signature	Date
Principal Executive Officer: Donald E. Felsing Chairman and Chief Executive Officer	<u>/s/ Donald E. Felsing</u>	February 24, 2009
Principal Financial Officer: Mark A. Snell Executive Vice President and Chief Financial Officer	<u>/s/ Mark A. Snell</u>	February 24, 2009
Principal Accounting Officer: Joseph A. Householder Senior Vice President, Controller and Chief Accounting Officer	<u>/s/ Joseph A. Householder</u>	February 24, 2009
Directors: Donald E. Felsing, Chairman	<u>/s/ Donald E. Felsing</u>	February 24, 2009
James G. Brocksmith, Jr., Director	<u>/s/ James G. Brocksmith, Jr.</u>	February 24, 2009
Richard A. Collato, Director	<u>/s/ Richard A. Collato</u>	February 24, 2009
Wilford D. Godbold, Jr., Director	<u>/s/ Wilford D. Godbold, Jr.</u>	February 24, 2009
William D. Jones, Director	<u>/s/ William D. Jones</u>	February 24, 2009
Richard G. Newman, Director	<u>/s/ Richard G. Newman</u>	February 24, 2009
William G. Ouchi, Director	<u>/s/ William G. Ouchi</u>	February 24, 2009
Carlos Ruiz, Director	<u>/s/ Carlos Ruiz</u>	February 24, 2009
William C. Rusnack, Director	<u>/s/ William C. Rusnack</u>	February 24, 2009
William P. Rutledge, Director	<u>/s/ William P. Rutledge</u>	February 24, 2009
Lynn Schenk, Director	<u>/s/ Lynn Schenk</u>	February 24, 2009
Neal E. Schmale, Director	<u>/s/ Neal E. Schmale</u>	February 24, 2009

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SAN DIEGO GAS & ELECTRIC COMPANY,
(Registrant)

By: /s/ Debra L. Reed
Debra L. Reed
Chairperson, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name/Title	Signature	Date
Principal Executive Officer:		
Debra L. Reed Chairperson, President and Chief Executive Officer	<u>/s/ Debra L. Reed</u>	February 24, 2009
Principal Financial and Accounting Officer:		
Robert M. Schlax Vice President, Controller and Chief Financial Officer	<u>/s/ Robert M. Schlax</u>	February 24, 2009
Directors:		
Debra L. Reed, Chairperson	<u>/s/ Debra L. Reed</u>	February 24, 2009
Michael R. Niggli, Director	<u>/s/ Michael R. Niggli</u>	February 24, 2009
Mark A. Snell, Director	<u>/s/ Mark A. Snell</u>	February 24, 2009

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

PACIFIC ENTERPRISES,
(Registrant)

By: /s/ Debra L. Reed

Debra L. Reed

Chairperson, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name/Title	Signature	Date
Principal Executive Officer:		
Debra L. Reed Chairperson, President and Chief Executive Officer	<u>/s/ Debra L. Reed</u>	February 24, 2009
Principal Financial and Accounting Officer:		
Robert M. Schlax Vice President, Controller and Chief Financial Officer	<u>/s/ Robert M. Schlax</u>	February 24, 2009
Directors:		
Debra L. Reed, Chairperson	<u>/s/ Debra L. Reed</u>	February 24, 2009
Michael R. Niggli, Director	<u>/s/ Michael R. Niggli</u>	February 24, 2009
Mark A. Snell, Director	<u>/s/ Mark A. Snell</u>	February 24, 2009

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By: /s/ Debra L. Reed

Debra L. Reed

Chairperson, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name/Title	Signature	Date
Principal Executive Officer:		
Debra L. Reed Chairperson, President and Chief Executive Officer	/s/ Debra L. Reed	February 24, 2009
Principal Financial and Accounting Officer:		
Robert M. Schlax Vice President, Controller and Chief Financial Officer	/s/ Robert M. Schlax	February 24, 2009
Directors:		
Debra L. Reed, Chairperson	/s/ Debra L. Reed	February 24, 2009
Michael R. Niggli, Director	/s/ Michael R. Niggli	February 24, 2009
Mark A. Snell, Director	/s/ Mark A. Snell	February 24, 2009

EXHIBIT INDEX

The Registration Statements and Forms S-8, 8-K, 10-K and 10-Q incorporated herein by reference were filed under Commission File Number 1-14201 (Sempra Energy), Commission File Number 1-40 (Pacific Enterprises/Pacific Lighting Corporation), Commission File Number 1-3779 (San Diego Gas & Electric Company) and/or Commission File Number 1-1402 (Southern California Gas Company).

The following exhibits relate to each registrant as indicated.

EXHIBIT 3 -- BYLAWS AND ARTICLES OF INCORPORATION

Sempra Energy

- 3.1 Amended and Restated Articles of Incorporation of Sempra Energy effective May 23, 2008 (Appendix B to the 2008 Sempra Energy Definitive Proxy Statement, filed on April 15, 2008).
- 3.2 Amended Bylaws of Sempra Energy effective December 4, 2007 (Sempra Energy Form 8-K filed on December 5, 2007, Exhibit 3(ii)).
- 3.3 Amended and Restated Bylaws of Sempra Energy effective May 26, 1998 (Registration Statement on Form S-8 Sempra Energy Registration Statement No. 333-56161 dated June 5, 1998, Exhibit 3.2).

San Diego Gas & Electric Company

- 3.4 Amended Bylaws of San Diego Gas & Electric effective August 4, 2003 (2007 SDG&E Form 10-K, Exhibit 3.01).
- 3.5 Amended and Restated Bylaws of San Diego Gas & Electric effective May 14, 2002 (2007 SDG&E Form 10-K, Exhibit 3.02).
- 3.6 Amended and Restated Articles of Incorporation of San Diego Gas & Electric Company effective November 10, 2006 (2006 SDG&E Form 10-K, Exhibit 3.02).

Pacific Enterprises / Southern California Gas Company

- 3.7 Amended and Restated Bylaws of Pacific Enterprises effective May 12, 2002 (2007 PE Form 10-K, Exhibit 3.01).
- 3.8 Amended Bylaws of Southern California Gas Company effective August 3, 2003 (2007 SoCalGas Form 10-K, Exhibit 3.02).
- 3.9 Amended and Restated Bylaws of Southern California Gas Company effective May 14, 2002 (2007 SoCalGas Form 10-K, Exhibit 3.03).
- 3.10 Restated Articles of Incorporation of Pacific Enterprises (1996 PE Form 10-K, Exhibit 3.01).
- 3.11 Restated Articles of Incorporation of Southern California Gas Company (1996 SoCalGas Form 10-K, Exhibit 3.01).

**EXHIBIT 4 -- INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS,
INCLUDING INDENTURES**

The companies agree to furnish a copy of each such instrument to the Commission upon request.

Sempra Energy

- 4.1 Description of rights of Sempra Energy Common Stock (Amended and Restated Articles of Incorporation of Sempra Energy effective May 23, 2008, Exhibit 3.1 above).

San Diego Gas & Electric Company

- 4.2 Description of preferences of Cumulative Preferred Stock, Preference Stock (Cumulative) and Series Preference Stock (SDG&E Amended and Restated Articles of Incorporation as of November 10, 2006, Exhibit 3.6 above).

Pacific Enterprises / Southern California Gas Company

- 4.3 Description of preferences of Preferred Stock, Preference Stock and Series Preferred Stock (Southern California Gas Company Restated Articles of Incorporation, Exhibit 3.11 above).

Sempra Energy / San Diego Gas & Electric Company

- 4.4 Mortgage and Deed of Trust dated July 1, 1940 (SDG&E Registration Statement No. 2-49810, Exhibit 2A).
- 4.5 Ninth Supplemental Indenture dated as of August 1, 1968 (SDG&E Registration Statement No. 2-68420, Exhibit 2D).
- 4.6 Sixteenth Supplemental Indenture dated August 28, 1975 (SDG&E Registration Statement No. 2-68420, Exhibit 2E).
- 4.7 Thirtieth Supplemental Indenture dated September 28, 1983 (SDG&E Registration Statement No. 33-34017, Exhibit 4.3).

Sempra Energy / Pacific Enterprises / Southern California Gas Company

- 4.8 First Mortgage Indenture of Southern California Gas Company to American Trust Company dated October 1, 1940 (Registration Statement No. 2-4504 filed by Southern California Gas Company on September 16, 1940, Exhibit B-4).
- 4.9 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of August 1, 1955 (Registration Statement No. 2-11997 filed by Pacific Lighting Corporation on October 26, 1955, Exhibit 4.07).
- 4.10 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of June 1, 1956 (Registration Statement No. 2-12456 filed by Southern California Gas Company on April 23, 1956, Exhibit 2.08).
- 4.11 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of December 1, 1956 (2006 Sempra Energy Form 10-K, Exhibit 4.09).
- 4.12 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank dated as of June 1, 1965 (2006 Sempra Energy Form 10-K, Exhibit 4.10).
- 4.13 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of August 1, 1972 (Registration Statement No. 2-59832 filed by Southern California Gas Company on September 6, 1977, Exhibit 2.19).

- 4.14 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of May 1, 1976 (Registration Statement No. 2-56034 filed by Southern California Gas Company on April 14, 1976, Exhibit 2.20).
- 4.15 Supplemental Indenture of Southern California Gas Company to Manufacturers Hanover Trust Company of California, successor to Wells Fargo Bank, National Association, and Crocker National Bank as Successor Trustee dated as of May 18, 1984 (Southern California Gas Company 1984 Form 10-K, Exhibit 4.29).

EXHIBIT 10 -- MATERIAL CONTRACTS

Sempra Energy / San Diego Gas & Electric Company / Pacific Enterprises / Southern California Gas Company

- 10.1 Form of Continental Forge and California Class Action Price Reporting Settlement Agreement dated as of January 4, 2006 (Form 8-K filed on January 5, 2006, Exhibit 99.1).
- 10.2 Form of Nevada Antitrust Settlement Agreement dated as of January 4, 2006 (Form 8-K filed on January 5, 2006, Exhibit 99.2).

Sempra Energy

- 10.3 Limited Liability Partnership Agreement, dated as of April 1, 2008, between Sempra Energy, Sempra Commodities, Inc., Sempra Energy Holdings, VII B.V., RBS Sempra Commodities LLP and The Royal Bank of Scotland plc (Sempra Energy March 31, 2008 Form 10-Q, Exhibit 10.1).
- 10.4 Indemnity Agreement, dated as of April 1, 2008, between Sempra Energy, Pacific Enterprises, Enova Corporation and The Royal Bank of Scotland plc (Sempra Energy March 31, 2008 Form 10-Q, Exhibit 10.2).
- 10.5 Master Confirmation for Share Purchase Agreement, dated as of April 1, 2008, between Sempra Energy and Merrill Lynch International (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.4).
- 10.6 First amendment to the Master Formation and Equity Interest Purchase Agreement, dated as of April 1, 2008, by and among Sempra Energy, Sempra Global, Sempra Energy Trading International, B.V. and The Royal Bank of Scotland plc (Sempra Energy March 31, 2008 Form 10-Q, Exhibit 10.3).
- 10.7 Master Formation and Equity Interest Purchase Agreement, dated as of July 9, 2007, by and among Sempra Energy, Sempra Global, Sempra Energy Trading International, B.V. and The Royal Bank of Scotland plc (Sempra Energy Form 8-K filed on July 9, 2007, Exhibit 10.2).
- 10.8 Energy Purchase Agreement between Sempra Energy Resources and the California Department of Water Resources, executed May 4, 2001 (2001 Sempra Energy Form 10-K, Exhibit 10.01).

Sempra Energy / San Diego Gas & Electric Company

- 10.9 Operating Agreement between San Diego Gas & Electric and the California Department of Water Resources dated April 17, 2003 (2003 Sempra Energy Form 10-K, Exhibit 10.06).
- 10.10 Servicing Agreement between San Diego Gas & Electric and the California Department of Water Resources dated December 19, 2002 (2003 Sempra Energy Form 10-K, Exhibit 10.07).

Compensation

Sempra Energy / San Diego Gas & Electric Company / Pacific Enterprises / Southern California Gas Company

- 10.11 Sempra Energy 2008 Long Term Incentive Plan (Appendix A to the 2008 Sempra Energy Definitive Proxy Statement, filed on April 15, 2008).
- 10.12 Form of Indemnification Agreement with Directors and Executive Officers (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.2).
- 10.13 Form of Sempra Energy 2008 Long Term Incentive Plan, 2008 Performance-Based Restricted Stock Unit Award (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.3).
- 10.14 Form of Sempra Energy 2008 Long Term Incentive Plan, 2008 Nonqualified Stock Option Agreement (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.4).
- 10.15 Sempra Energy Amended and Restated Executive Life Insurance Plan.
- 10.16 Amendment and Restatement of the Sempra Energy Cash Balance Restoration Plan.
- 10.17 Form of Amended and Restated Sempra Energy Severance Pay Agreement.
- 10.18 Amendment and Restatement of the Sempra Energy 2005 Deferred Compensation Plan.
- 10.19 Amendment and Restatement of the Sempra Energy Supplemental Executive Retirement Plan.
- 10.20 Sempra Energy Executive Personal Financial Planning Program Policy Document (September 30, 2004 Sempra Energy Form 10-Q, Exhibit 10.11).
- 10.21 2003 Sempra Energy Executive Incentive Plan B (2003 Sempra Energy Form 10-K, Exhibit 10.10).
- 10.22 Sempra Energy Executive Incentive Plan effective January 1, 2003 (2002 Sempra Energy Form 10-K, Exhibit 10.09).
- 10.23 Amended and Restated Sempra Energy Deferred Compensation and Excess Savings Plan (September 30, 2002 Sempra Energy Form 10-Q, Exhibit 10.3).
- 10.24 Sempra Energy Employee Stock Ownership Plan and Trust Agreement effective January 1, 2001 (September 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.1).
- 10.25 Amendment to the Amended and Restated Sempra Energy Deferred Compensation and Excess Savings Plan.
- 10.26 Sempra Energy Amended and Restated Executive Medical Plan.
- 10.27 Form of Sempra Energy 1998 Long Term Incentive Plan, 2008 Performance-Based Restricted Stock Unit Award (2007 Sempra Energy Form 10-K, Exhibit 10.09).
- 10.28 Form of Sempra Energy 1998 Long Term Incentive Plan, 2008 Non-Qualified Stock Option Agreement (2007 Sempra Energy Form 10-K, Exhibit 10.10).
- 10.29 Amended and Restated Sempra Energy 1998 Long-Term Incentive Plan (June 30, 2003 Sempra Energy Form 10-Q, Exhibit 10.2).

Sempra Energy

- 10.30 Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals (Registration Statement on Form S-8 Sempra Energy Registration Statement No. 333-155191 dated November 7, 2008, Exhibit 10.1).
- 10.31 Form of Sempra Energy 2008 Non-Employee Directors' Stock Plan, Nonqualified Stock Option Agreement (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.5).
- 10.32 Sempra Energy Amended and Restated Sempra Energy Retirement Plan for Directors (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.7).
- 10.33 Neal Schmale Restricted Stock Award Agreement (September 30, 2004 Sempra Energy Form 10-Q, Exhibit 10.8).
- 10.34 Form of Sempra Energy 1998 Non-Employee Directors' Stock Plan Non-Qualified Stock Option Agreement (2006 Sempra Energy Form 10-K, Exhibit 10.09).
- 10.35 Sempra Energy 1998 Non-Employee Directors' Stock Plan (Registration Statement on Form S-8 Sempra Energy Registration Statement No. 333-56161 dated June 5, 1998, Exhibit 4.2).

Nuclear

Sempra Energy / San Diego Gas & Electric Company

- 10.36 Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 SDG&E Form 10-K, Exhibit 10.7).
- 10.37 Amendment No. 1 to the Qualified CPUC Decommissioning Master Trust Agreement dated September 22, 1994 (see Exhibit 10.36 above)(1994 SDG&E Form 10-K, Exhibit 10.56).
- 10.38 Second Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.36 above)(1994 SDG&E Form 10-K, Exhibit 10.57).
- 10.39 Third Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.36 above)(1996 SDG&E Form 10-K, Exhibit 10.59).
- 10.40 Fourth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.36 above)(1996 SDG&E Form 10-K, Exhibit 10.60).
- 10.41 Fifth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generation Station (see Exhibit 10.36 above)(1999 SDG&E Form 10-K, Exhibit 10.26).
- 10.42 Sixth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.36 above)(1999 SDG&E Form 10-K, Exhibit 10.27).
- 10.43 Seventh Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated December 24, 2003 (see Exhibit 10.36 above)(2003 Sempra Energy Form 10-K, Exhibit 10.42).

- 10.44 Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 SDG&E Form 10-K, Exhibit 10.8).
- 10.45 First Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.44 above)(1996 SDG&E Form 10-K, Exhibit 10.62).
- 10.46 Second Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.44 above)(1996 SDG&E Form 10-K, Exhibit 10.63).
- 10.47 Third Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.44 above)(1999 SDG&E Form 10-K, Exhibit 10.31).
- 10.48 Fourth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.44 above)(1999 SDG&E Form 10-K, Exhibit 10.32).
- 10.49 Fifth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated December 24, 2003 (see Exhibit 10.44 above)(2003 Sempra Energy Form 10-K, Exhibit 10.48).
- 10.50 Second Amended San Onofre Operating Agreement among Southern California Edison Company, SDG&E, the City of Anaheim and the City of Riverside, dated February 26, 1987 (1990 SDG&E Form 10-K, Exhibit 10.6).
- 10.51 U. S. Department of Energy contract for disposal of spent nuclear fuel and/or high-level radioactive waste, entered into between the DOE and Southern California Edison Company, as agent for SDG&E and others; Contract DE-CR01-83NE44418, dated June 10, 1983 (1988 SDG&E Form 10-K, Exhibit 10N).

EXHIBIT 12 -- STATEMENTS RE: COMPUTATION OF RATIOS

Sempra Energy

- 12.1 Sempra Energy Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2008, 2007, 2006, 2005 and 2004.

San Diego Gas & Electric Company

- 12.2 San Diego Gas & Electric Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2008, 2007, 2006, 2005 and 2004.

Pacific Enterprises

- 12.3 Pacific Enterprises Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2008, 2007, 2006, 2005 and 2004.

Southern California Gas Company

- 12.4 Southern California Gas Company Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2008, 2007, 2006, 2005 and 2004.

EXHIBIT 13 -- ANNUAL REPORT TO SECURITY HOLDERS

Sempra Energy / San Diego Gas & Electric Company / Pacific Enterprises / Southern California Gas Company

- 13.1 Sempra Energy 2008 Annual Report to Shareholders. (Such report, except for the portions thereof which are expressly incorporated by reference in this Annual Report, is furnished for the information of the Securities and Exchange Commission and is not to be deemed "filed" as part of this Annual Report).

EXHIBIT 14 -- CODE OF ETHICS

San Diego Gas & Electric Company / Southern California Gas Company

- 14.1 Sempra Energy Code of Business Conduct and Ethics for Board of Directors and Senior Officers (also applies to directors and officers of San Diego Gas & Electric Company and Southern California Gas Company) (2006 SDG&E and SoCalGas Forms 10-K, Exhibit 14.01).

EXHIBIT 21 -- SUBSIDIARIES

Sempra Energy

- 21.1 Sempra Energy Schedule of Significant Subsidiaries at December 31, 2008.

Pacific Enterprises

- 21.2 Pacific Enterprises Schedule of Significant Subsidiaries at December 31, 2008.

EXHIBIT 23 -- CONSENTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND REPORT ON SCHEDULE, PAGES 36 AND 37.

EXHIBIT 31 -- SECTION 302 CERTIFICATIONS

Sempra Energy

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

San Diego Gas & Electric Company

- 31.3 Statement of San Diego Gas & Electric's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

- 31.4 Statement of San Diego Gas & Electric's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

Pacific Enterprises

- 31.5 Statement of PE's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
- 31.6 Statement of PE's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

Southern California Gas Company

- 31.7 Statement of SoCalGas' Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
- 31.8 Statement of SoCalGas' Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

EXHIBIT 32 -- SECTION 906 CERTIFICATIONS

Sempra Energy

- 32.1 Statement of Sempra Energy's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
- 32.2 Statement of Sempra Energy's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

San Diego Gas & Electric Company

- 32.3 Statement of San Diego Gas & Electric's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
- 32.4 Statement of San Diego Gas & Electric's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

Pacific Enterprises

- 32.5 Statement of PE's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
- 32.6 Statement of PE's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

Southern California Gas Company

- 32.7 Statement of SoCalGas' Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
- 32.8 Statement of SoCalGas' Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

EXHIBIT 99 -- ADDITIONAL EXHIBITS

Sempra Energy

- 99.1 RBS Sempra Commodities LLP and Subsidiaries – Consolidated Financial Statements as of December 31, 2008 and for the Period From April 1, 2008 (Date of Commencement) to December 31, 2008, and Report of Independent Registered Public Accounting Firm.
- 99.2 Sempra Energy Unaudited Pro Forma Condensed Statement of Consolidated Income for the Year Ended December 31, 2008.

GLOSSARY

APSC	Alabama Public Service Commission	LNG	Liquefied Natural Gas
Annual Report	2008 Annual Report to Shareholders	Mobile Gas	Mobile Gas Service Corporation
Bay Gas	Bay Gas Storage Company	MW	Megawatt
Bcf	Billion Cubic Feet (of natural gas)	NRC	Nuclear Regulatory Commission
CARB	California Air Resources Board	PE	Pacific Enterprises
CEC	California Energy Commission	PGE	Portland General Electric Company
CEQA	California Environmental Quality Act	QFs	Qualifying Facilities
CPUC	California Public Utilities Commission	RBS	The Royal Bank of Scotland plc
DOE	Department of Energy	RBS Sempra Commodities	RBS Sempra Commodities LLP
DWR	Department of Water Resources	Rockies Express	Rockies Express Pipeline LLC
Edison	Southern California Edison Company	RPS	Renewables Portfolio Standard
Elk Hills	Elk Hills Power	SDG&E	San Diego Gas & Electric Company
ERR	Eligible Renewable Energy Resource	Sempra Utilities	San Diego Gas & Electric Company and Southern California Gas Company
FERC	Federal Energy Regulatory Commission	SoCalGas	Southern California Gas Company
FSA	U.K. Financial Services Authority	SONGS	San Onofre Nuclear Generating Station
GHG	Greenhouse Gas	The Board	Sempra Energy's board of directors
IOUs	Investor-Owned Utilities	The Plan	The Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals
ISFSI	Independent Spent Fuel Storage Installation	The Prior Plan	2008 Incentive Plan of EnergySouth, Inc.
ISO	Independent System Operator		

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

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

Sempra hereby amends and restates the Plan effective as of December 12, 2008, except as otherwise provided herein. This amendment and restatement of the Plan is intended to comply with the requirements of Sections 409A(a)(2), (3) and (4) of the Code (as defined below) and the Treasury Regulations thereunder. Also, the name of the Plan is hereby amended to be “The Sempra Energy Executive Life Insurance Plan.”

PURPOSE OF PLAN

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

ARTICLE I DEFINITIONS

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

1.1 “**Board**” shall mean the Board of Directors of the Company.

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

1.3 “**Committee**” shall mean the Compensation Committee of the Board, or such other committee as the Compensation Committee shall appoint from time to time to administer the Plan.

1.4 “**Company**” shall mean Sempra Energy, a California corporation, and any successor thereto, including any corporation that is a successor to all or substantially all of the Company’s assets or business. “Company” shall also include any corporation or other entity a majority of whose outstanding voting stock or voting power is owned, directly or indirectly, by Sempra Energy, Inc.

1.5 “**Participant**” shall mean any senior executive of the Company who is selected to participate in the Plan and who has satisfied the conditions for Plan participation as set forth in Section 2.1.

1.6 “**Plan**” shall mean this Sempra Energy Executive Life Insurance Plan, as it may be amended from time to time.

1.7 “**Plan Year**” shall mean the calendar year.

1.8 “**Policy**” shall mean the life insurance policy (or life insurance policies if more than one is required because of death benefit amounts or otherwise) purchased on a Participant’s life that is subject to the terms and conditions of this Plan.

1.9 “**Separation from Service**”, with respect to a Participant (or another Service Provider) means the Participant’s (or such Service Provider’s) “separation from service,” as defined in Treasury Regulation Section 1.409A-1(h).

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

1.11 “**Service Recipient**,” with respect to a Participant, means the Company and all persons considered part of the “service recipient,” as defined in Treasury Regulation Section 1.409A-1(g), as determined from time to time. As provided in Treasury Regulation Section 1.409A-1(g), the “Service Recipient” shall mean the person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Section 414(b) or 414(c) of the Code.

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

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

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

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

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

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

ARTICLE II ELIGIBILITY

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

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

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

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

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

ARTICLE III BONUS AMOUNTS

3.1 **Life Insurance Coverage Prior to Separation from Service.** Subject to Article II above, for each Plan Year of the Participant’s participation in the Plan and prior to the Participant’s Separation from Service, the Company shall pay to the life insurance carrier the premiums on the Policy in accordance with this Section 3.1, as determined by the Company in its sole discretion, which Policy shall provide a death benefit equal to the sum of the following amounts, as those amounts are determined as of the last day of each Plan Year, as determined by the Committee in its sole discretion: (i) two (2) times the Participant’s annual base salary, plus (ii) two (2) times the Participant’s average annual bonus under the 2003 Executive Incentive Plan, or any successor thereto (the “Bonus Plan”), including any amount deferred, in the three (3) highest years in the ten (10) previous years, or during the Participant’s actual years of employment with the Company, if less. In determining the amounts described in the previous sentence for any Plan Year, the Committee shall substitute the Participant’s target bonus under the Bonus Plan for a Participant who is in his or her first Plan Year of participation and has not received any bonus under the Bonus Plan. The premium for any Plan Year shall be paid by the Company not later than March 15 of the next following Plan Year; provided, however, that such premium shall not be paid if the Participant has a Separation from Service prior to the payment of such premium. If a Participant’s compensation increases after the Committee has determined the Participant’s death benefit as of the last day of the Plan Year, the Participant’s death benefit under the Policy shall not be adjusted until the last day of the next following Plan Year and then it will be based on the Participant’s compensation at that time. These premium payments shall be treated as a bonus payments to the Participant.

3.2 **Life Insurance Coverage after Separation from Service with Age and Service.** If at the time of the Participant’s Separation from Service (other than by reason of the Participant’s death), the Participant has attained age 62 and has completed at least five Years of Service, then the Participant shall be entitled to the benefit, if any, specified in this Section 3.2. Upon such Separation from Service, the Committee shall have the life insurance carrier which issued the Policy prepare a life insurance projection for the Policy, determined as of the January 1 of the Plan Year next following such Separation from Service (the “Projection Date”), based on the following assumptions: (i) the then current policy charges, (ii) a crediting rate of 6.5% net of investment management fees (but before mortality and expense charges), (iii) death benefit coverage until the Participant’s 100th birthday equal to (x) one (1) times the Participant’s annual base salary (determined as of the date of the Participant’s Separation from Service), plus (y) one (1) times the Participant’s average annual bonus under the Bonus Plan, including any amount deferred, in the three (3) highest years in the ten (10) previous years, or during the Participant’s actual years of employment with the Company, if less (determined as of the date of the Participant’s Separation from Service), (iv) except in the case of a Participant whose name is listed on Exhibit A, the Company shall be assumed to have paid only the minimum premiums under the Policy necessary to maintain the death benefit coverage, as required under Section 3.1, for each Plan Year of the Participant’s participation in the Plan prior to the Projection Date, (v) in the case of a Participant whose name is listed on Exhibit A, the cash value of the Policy for such Participant, determined as December 31, 2008, shall be the amount set forth on Exhibit A and the Company shall be assumed to have paid no premium payments under the Policy after December 31, 2008 and prior to the Projection Date. If the illustration shows that the Policy will sustain itself until at least the Participant’s 100th birthday without lapsing based on these assumptions, then the Company shall have no further obligations under the Plan. If the illustration provides that the Policy will not so sustain itself until that time without lapsing, the Company shall have the life insurance carrier determine the minimum premium, determined as of the January 1 of the Plan Year next following such Separation from Service, required to be paid into the Policy to sustain the Policy until the Participant’s 100th birthday without

lapsing, based on these assumptions. Except as provided in Section 5.1(2), the Company will then pay such premium to the life insurance carrier during the Plan Year next following the Plan Year in which such Participant's Separation from Service occurs and the Company shall have no further obligation to the Participant under this Plan. The Company shall not make a premium payment under this Section 3.2 in the event of the Participant's Separation from Service by reason of death.

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

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

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

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

ARTICLE IV ADMINISTRATION

4.1 Administration. This Plan shall be administered by the Committee. The Committee shall be authorized to construe and interpret all of the provisions of this Plan, to adopt procedures and practices concerning the administration of this Plan, and to make any determinations necessary hereunder, which shall, subject to Section 4.8 below, be binding and conclusive on all parties. The Committee may appoint one or more individuals and delegate such of its power and duties as it deems desirable to any such individual, in which case every reference herein made to the Committee shall be deemed to mean or include the individuals as to matters within their jurisdiction.

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

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

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

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

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

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

4.8 Claims Procedure.

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

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

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

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

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

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

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

The Claimant shall be afforded the opportunity to submit written comments, documents, records, and other information relating to the claim, and the Claimant shall be provided, upon request and free of charge, reasonable access to all documents, records, and other information relevant to the Claimant's claim. A document, record or other information shall be considered "relevant" to the claim, as provided in Department of Labor Regulation Section 2560.503-1(m)(8). The review by the Committee shall take into account all comments, documents, records, and other information submitted by the Claimant, without regard to whether such information was submitted or considered in the Committee's initial determination with respect to the claim.

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

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

ARTICLE V SECTION 409A OF THE CODE

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

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

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

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

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

ARTICLE VI MISCELLANEOUS

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

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

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

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

6.5 **Non-Transferability.**

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

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

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

IN WITNESS WHEREOF, the Company has executed this amendment and restatement of the Plan as of December 12th, 2008.

SEMPRA ENERGY

By:

G. Joyce Rowland
Sr. Vice President, Human Resources

Exhibit A

<u>Participant</u>	December 31, 2008 <u>Policy Cash Value</u>

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

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1. EFFECTIVE DATE

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

The Plan was amended and restated effective as of November 5, 2007. The name of the Plan was changed to the Sempra Energy Cash Balance Restoration Plan effective June 16, 2008.

Sempra Energy hereby amends and restates this Plan in its entirety effective as of December 31, 2008, except as otherwise provided herein.

This amendment and restatement of the Plan is intended to comply with the requirements of Sections 409A(a)(2), (3) and (4) of the Code (as defined below) and the Treasury Regulations thereunder. The elections and amendments made in accordance with the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code and Internal Revenue Service Notices 2006-79 and 2007-86 shall be effective for the relevant periods on or before December 31, 2008.

2. PURPOSE

This Plan serves two purposes. First, it provides benefits for certain Employees in excess of the limitations on benefits under the Basic Plan (as defined below) imposed by Section 415 of the Code (as defined below). The portion of the Plan providing these benefits is intended to be an "excess benefit plan" as defined in Section 3(36) of ERISA (as defined below). Second, it provides benefits for certain Employees in excess of the limitations on benefits under the Basic Plan imposed by Section 401(a) (17) of the Code.

3. ADMINISTRATION

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

4. ELIGIBILITY; PARTICIPATION

(A) All Employees whose pension benefits under the Basic Plan are limited by the compensation and benefits limitations imposed by Sections 401(a)(17) and 415 of the Code shall be eligible for benefits under this Plan. In no event shall an Employee who is not entitled to benefits under the Basic Plan be eligible for a benefit under this Plan. An Employee who is a participant in the Basic Plan shall first become an Eligible Employee on the first date on which such Employee's benefits under the Basic Plan are limited by the provisions of Section 415 of the Code, or such Employee's benefits under the Basic Plan are limited by the covered compensation limitations of Section 401(a)(17) of the Code.

(B) An Eligible Employee shall be a Participant and shall be entitled to benefits in accordance with Section 5.

5. AMOUNT OF BENEFITS

(A) 415 Make-Up

The benefits payable under this subsection (A) to a Participant whose benefits under the Basic Plan are limited by the provisions of Section 415 of the Code incorporated in the Basic Plan, or to his beneficiary(ies), shall equal the excess, if any, of:

- (i) the benefits which would be paid to such Participant or on his behalf to his beneficiary(ies) under the Basic Plan, if the provisions of such Plan were administered without regard to the benefit limitations under Section 415 of the Code set forth in the Basic Plan, over
- (ii) the benefits which are paid to such Participant or on his behalf to his beneficiary(ies) under the Basic Plan.

(A) 401(a) (17) Make-Up

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

- (i) the benefits which would be paid to such Participant or on his behalf to his beneficiary(ies) under the Basic Plan, and, if applicable, to the Participant, under subsection (A), if the provisions of such Plan were administered without regard to the covered compensation limitations under Section 401(a)(17) of the Code set forth in the Basic Plan (and, with respect to covered compensation paid or payable in plan years beginning on or after January 1, 2007, with a maximum compensation limit for each plan year of Two Million Dollars (\$2,000,000)), over
- (ii) the benefits which are paid to such Participant or on his behalf to his beneficiary(ies) under the Basic Plan and, if applicable to the Participant, under subsection (A).

(C) Conformance with Treasury Regulations

The benefits payable under subsections (A) and (B) are determined under the formula determining benefits under the Basic Plan, and the benefits payable under subsections (A) and (B) are determined as an amount offset by the benefits provided under the Basic Plan. The benefits payable under this Plan shall be determined in a manner consistent with Treasury Regulation Sections 1.409A-2(a)(9) and 1.409A-3(j)(5) (relating to nonqualified deferred compensation plans linked to qualified employer plans). Any amendment of the Basic Plan shall be taken into account under this Plan only to the extent permitted under Treasury Regulation Sections 1.409A-2(a)(9) and 1.409A-3(j)(5). Any reference to the interest and mortality factors (or actuarial methods and assumptions) specified in the Basic Plan shall mean the applicable

interest and mortality factors (or actuarial methods or assumptions) specified under the terms of the Basic Plan as in effect on December 31, 2008.

6. PAYMENT OF BENEFITS

(A) Distribution Options for Certain SERP Participants

- (i) In the case of a Participant who is an Eligible Employee, and is a participant under the SERP (as defined below) as of December 31, 2005, the payment of benefits to such Participant under this Plan shall be made in accordance with this subsection (A).
- (ii) Unless the Participant exercises the Lump Sum Option and receives a lump sum distribution from the Basic Plan, the payment of such Participant's Pre-Section 409A Benefit under this Plan shall be in the same payment form and at the same time as the payment of benefits to the Participant or on his behalf to his beneficiary(ies) under the Basic Plan. In the event a Participant receives a lump sum distribution from the Basic Plan, payment of such Participant's Pre-Section 409A Benefit under this Plan will be made in the form of a straight life annuity. However, the Participant may request, in writing, payment of such Participant's Pre-Section 409A Benefit under one of the following alternatives provided such request is filed with Sempra Energy at least three months prior to his Retirement Date or Termination under the Basic Plan:
 - (a) The Participant may request payment of such Participant's Pre-Section 409A Benefit under any of the other annuity options for which he is eligible under the Basic Plan. The amount of such optional annuity benefit with respect to his or her Pre-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The request will be subject to approval of the Company's Senior Human Resources Officer and, if approved, will be irrevocable as long as the Participant receives a lump sum distribution from the Basic Plan.
 - (b) The Participant may request payment of such Participant's Pre-Section 409A Benefit in a lump sum. The amount of the distribution with respect to his or her Pre-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the actuarial factors specified in the Basic Plan. In the event such a request is timely filed, the request shall be considered by the Senior Human Resources Officer who shall have the sole discretion, considering the best interests of the Company, to allow a lump sum distribution. The decision of the Senior Human Resources Officer shall be final. The Participant will be required to show good reason for receiving a lump sum distribution and, file the request at least three months prior to separation from service as a condition of having the request approved. If the lump sum pay out is approved, the lump sum form of pay out shall be irrevocable even if the Participant changes his election under the Basic Plan.

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

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

- (iii) The payment of such Participant's Post-Section 409A Benefit under this Plan shall be in a lump sum upon the Participant's Separation from Service, unless the Participant elects to receive an optional annuity form of payment under subparagraph (a). The amount of the Participant's lump sum distribution with respect to his Post-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the actuarial factors specified in the Basic Plan.
 - (a) The Participant may elect, in writing, payment commencing upon the Participant's Separation from Service under any of the following annuity options: (I) a straight life annuity, (II) a joint and 50% survivor annuity, and (III) a joint and 100% survivor annuity. The amount of such optional annuity benefit with respect to such Participant's Post-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The election will be subject to approval of the Company's Senior Human Resources Officer, in his or her discretion, and, if approved, will become effective and irrevocable on the date of such approval (except as provided in subsection (B)). The payment of such Participant's Post-Section 409A Benefit in an annuity form shall commence upon the Participant's Separation from Service.
 - (b) A Participant's election under subparagraph (a) may be made with respect to a Participant's Post-Section 409A Benefit on or after January 1, 2006 and on or before December 31, 2008 in accordance with the transitional relief under Section 409A of the Internal Revenue Code and Internal Revenue Service Notices 2006-79 and 2007-86; provided, however, that a Participant's election made in 2006 shall only apply with respect to payments that would not otherwise be payable in 2006, and shall not cause payments to be made in 2006 that would not otherwise be payable in 2006; and, provided, further, that a Participant's election made in 2007 shall apply only with respect to payments that would not otherwise be payable in 2007 and shall not cause payments to be made in 2007 that would not otherwise be payable in 2007; and provided, further, that a Participant's election made in 2008 shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. A Participant's election under subparagraph (a) shall be considered made when the election becomes irrevocable. No election under subparagraph (a) may be made by a Participant unless such election becomes irrevocable on or prior to December 31, 2008.
 - (c) The joint and survivor annuity is only available under clause (a)(II) or (III) if the Participant designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan as part of the Participant's election. If the spouse, or beneficiary dies before the Participant's Separation from Service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity; provided, that the straight life annuity is actuarially equivalent, applying reasonable actuarial methods and assumptions, to the joint and survivor annuity in effect prior to such cancellation, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
 - (d) Except as provided in subsection (B), such Participant may not change the form and time of payment of such Participant's Post-Section 409A Benefit under this Plan after December 31, 2008.

- (iv) Notwithstanding the foregoing, in no event shall a distribution option be available or apply to a Participant's Pre-Section 409A Benefit if such distribution option would result in a material modification of the Participant's Pre-Section 409A Benefit, as determined under Section 409A of the Code and Treasury Regulation Section 1.409A-6.
- (v) A lump sum payment of a Participant's Post-Section 409A Benefit under this subsection (A) shall be paid on such date as is determined by Sempra Energy within thirty (30) days following the Participant's Separation from Service. If an annuity payment is elected for purposes of the payment of such Participant's Post-Section 409A Benefit under this subsection (A), such Post-Section 409A Benefit shall be paid monthly, beginning on the last day of the month of the Participant's Separation from Service and shall continue to be paid monthly during the life of the Participant and the life of the Participant's designated beneficiary, if any (if such beneficiary survives the Participant). In all cases, the monthly benefit shall equal the annual benefit divided by 12.

(B) Changes in Distribution Option for Certain SERP Participants

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

- (i) The Participant may elect, in writing, to change the form of payment of such Participant's Post-Section 409A Benefit to any of the following options: (a) a lump sum, (b) a straight life annuity, (c) a joint and 50% survivor annuity, and (d) a joint and 100% survivor annuity. The amount of such optional benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The Participant's election shall be subject to paragraphs (ii), (iii), (iv), (v), (vi) and (vii). Except as provided in paragraph (vi), the Participant's election under this paragraph (i) shall be irrevocable. The joint and survivor annuity is only available under subparagraph (c) or (d) if the Participant designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan as part of the Participant's election. If the spouse, or beneficiary dies before the Participant's Separation from Service, the joint and survivor annuity elected under this paragraph (i) is canceled and the benefit is paid in the form of a straight life annuity; provided, that the straight life annuity is actuarially equivalent, applying reasonable actuarial methods and assumptions, to the joint and survivor annuity in effect prior to such cancellation, as determined under Treasury Regulation Section 1.409A-2(a)(2)(ii).
- (ii) The Participant's election under paragraph (i) must be made prior to the Participant's Separation from Service.
- (iii) If the Participant's form of payment, as in effect at the time of election under paragraph (i), is an annuity, such Participant's election under paragraph (i)(b), (c) or (d) (an election of an alternative annuity form of payment) shall be effective immediately and paragraph (v) shall not apply to such Participant's election; provided, that the alternative annuity form of payment elected by the Participant is actuarially equivalent applying reasonable actuarial methods and assumptions to the annuity form of payment, as in effect at the time of the election, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
- (iv) Except as provided in paragraph (iii), the Participant's election under paragraph (i) shall not take effect until 12 months after his election is made, in accordance with Treasury Regulation Section 1.409A-2(b)(1)(i). If the Participant has a Separation from Service before the election under paragraph (i) becomes effective, the election under paragraph (i) shall terminate and the Participant's Post-Section 409A Benefit shall be paid in the form of payment as in effect at the time of the election under paragraph (i).
- (v) Except as provided in paragraph (iii), in the event the Participant's election under paragraph (i) becomes effective, the payment of such Participant's Post-Section 409A Benefit under the option shall be deferred for a period of five years from the date such payment would otherwise have been paid (or, in the case of a life annuity treated as a single payment, five years from the date the first amount was scheduled to be paid), in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).
- (vi) The Participant may elect to change the annuity option elected under paragraph (i) to another annuity option specified under paragraph (i) and such election shall become effective immediately, provided, that such change is made prior to the commencement of the payment of such Participant's Post-Section 409A Benefit under this Plan; and, provided, further, that the annuity form of payment is actuarially equivalent, applying reasonable actuarial methods and assumptions, to the annuity form of payment, as in effect at the time of the election, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
- (vii) Any change in a Participant's form of payment under this subsection (B) shall be made in accordance with Treasury Regulation Section 1.409A-2(b).

(C) Distribution Options for other Participants

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

- (i) Such a Participant may elect, in writing, payment commencing upon the Participant's Separation from Service under any of the following annuity options: (a) a straight life annuity, (b) a joint and 50% survivor annuity, and (c) a joint and 100% survivor annuity. The amount of such optional annuity benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The election will be subject to approval of the Senior Human Resources Officer of Sempra Energy, in his or her discretion, and, if approved, will become effective and irrevocable on the date of such approval (except as provided in subsection (D)). The payment of such Participant's benefits under this Plan in an annuity form shall commence upon the Participant's Separation from Service.
- (ii) A Participant's election under paragraph (i) may be made with respect to such Participant's benefit under this Plan on or after January 1, 2006 and on or before December 31, 2008 in accordance with the transitional relief under Section 409A of the Internal Revenue Code and Internal Revenue Service Notices 2006-79 and 2007-86; provided, however, that a Participant's election made in 2006 shall apply only with respect to payments that would not otherwise be payable in 2006, and shall not cause payments to be made in 2006 that would not otherwise be payable in 2006; and, provided, further, that a Participant's election made in 2007 shall apply only with respect to payments that would not otherwise be payable in 2007, and shall not cause payments to be made in 2007 that would not otherwise be payable in 2007; and provided, further, that a Participant's election made in 2008 shall apply only with respect to payments that would

not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. A Participant's election under paragraph (i) shall be considered made when the election becomes irrevocable. No election under paragraph (i) may be made by a Participant unless such election becomes irrevocable on or prior to December 31, 2008.

- (iii) The joint and survivor annuity is only available under subparagraphs (i)(b) or (c) if the Participant designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan as part of the Participant's election. If the spouse, or beneficiary dies before the Participant's Separation from Service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity; provided, that the straight life annuity is actuarially equivalent, applying reasonable actuarial methods and assumptions, to the joint and survivor annuity in effect prior to such cancellation, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
- (iv) Except as provided in subsection (D), such Participant may not change the form and time of payment of benefits under this Plan after December 31, 2008.
- (v) A lump sum payment under this subsection (C) shall be paid on such date as is determined by Sempra Energy within thirty (30) days following the Participant's Separation from Service. An annuity under this subsection (C) shall be paid monthly, beginning on the last day of the month of the Participant's Separation from Service and shall continue to be paid monthly during the life of the Participant and the life of the Participant's designated beneficiary, if any (if such beneficiary survives the Participant). In all cases, the monthly benefit shall equal the annual benefit divided by 12.

(D) Changes in Distribution Option for other Participants

A Participant described in subsection (C) may elect to change the form of the payment of such Participant's benefit under this Plan, as follows:

- (i) The Participant may elect, in writing, to change the form of payment of such Participant's benefit to any of the following options: (a) a lump sum, (b) a straight life annuity, (c) a joint and 50% survivor annuity, and (d) a joint and 100% survivor annuity. The amount of such optional benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The Participant's election shall be subject to paragraphs (ii), (iii), (iv), (v), (vi) and (vii). Except as provided in paragraph (vi), the Participant's election under this paragraph (i) shall be irrevocable. The joint and survivor annuity is only available under subparagraph (c) or (d) if the Participant designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan as part of the Participant's election. If the spouse, or beneficiary dies before the Participant's Separation from Service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity; provided, that the straight life annuity is actuarially equivalent, applying reasonable actuarial methods and assumptions, to the joint and survivor annuity in effect prior to such cancellation, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
- (ii) The Participant's election under paragraph (i) must be made prior to the Participant's Separation from Service.
- (iii) If the Participant's form of payment, as in effect at the time of the election under paragraph (i), is an annuity, such Participant's election under paragraph (i)(b), (c) or (d) (an election of an alternative annuity form of payment) shall be effective immediately and paragraph (v) shall not apply to such Participant's election; provided, that the alternative annuity form of payment elected by the Participant is actuarially equivalent applying reasonable actuarial methods and assumptions to the annuity form of payment, as in effect at the time of the election, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
- (iv) Except as provided in paragraph (iii), the Participant's election under paragraph (i) shall not take effect until 12 months after the date his or her election is made in accordance with Treasury Regulation Section 1.409A-2(b)(1)(i). If the Participant has a Separation from Service before the election under paragraph (i) becomes effective, the election under paragraph (i) shall terminate and the Participant's benefit shall be paid in the form of payment as in effect at the time of the election under paragraph (i).
- (v) Except as provided in paragraph (iii), in the event the Participant's election under paragraph (i) becomes effective, the payment of such Participant's benefit under the option be deferred for a period of five years from the date such payment would otherwise have been paid (or, in the case of a life annuity treated as a single payment, five years from the date the first amount was scheduled to be paid), in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).
- (vi) The Participant may elect to change an annuity form of payment elected under paragraph (i) to another annuity form of payment specified under paragraph (i)(b), (c) or (d), and such election shall be effective immediately; provided, that such change is made prior to the commencement date of the payment of benefits under this Plan; and, provided, further, that the annuity form of payment is actuarially equivalent applying reasonable actuarial methods and assumptions to the annuity form of payment, as in effect at the time of the election, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
- (vii) Any change in a Participant's form of payment under this subsection (D) shall be made in accordance with Treasury Regulation Section 1.409A-2(b).

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

- (i) In the case of a Participant described in subsection (A), such Participant's "Pre-Section 409A Benefit" means the portion of such Participant's benefit under the Plan, if any, to which such Participant had a legal binding right, and which was earned and vested, as of December 31, 2004, determined in accordance with Section 409A of the Code and Treasury Regulation Section 1.409A-6. Such Participant's "Pre-Section 409A Benefit" shall be determined by the terms of the Plan and the Basic Plan, as in effect as of October 3, 2004.

Such Participant's "Pre-Section 409A Benefit" shall equal the present value of the amount to which such Participant would have been entitled under the Plan if such Participant voluntarily terminated services without cause on December 31, 2004, and received a payment of the benefits available from the Plan on the earliest possible date allowed under the Plan to receive a payment of benefits following the termination of services, and received the benefits in the form with maximum value. Notwithstanding the foregoing, for any subsequent taxable year of such Participant, the "Pre-Section 409A Benefit" shall increase to equal the present value of the benefit such Participant actually becomes entitled to, in the form and at the time actually paid, determined under the terms of the Plan (including applicable limits

under the Code), as in effect on October 3, 2004, without regard to any further services rendered by such Participant after December 31, 2004, or any other events affecting the amount of or the entitlement to benefits (other than such Participant's election with respect to the time or form of an available benefit). Such present value shall be computed using the applicable actuarial assumptions and methods under the Basic Plan to the extent in accordance with Treasury Regulation Section 1.409A-6(a)(3)(i), or such other reasonable actuarial assumptions and methods as are permitted under Treasury Regulation Section 1.409A-6(a)(3)(i).

- (ii) In the case of a Participant described in subsection (A), such Participant's "Post-Section 409A Benefit" means such Participant's benefit under this Plan, less such Participant's Pre-Section 409A Benefit (if any). In the case of any other Participant, such Participant's "Post-Section 409A Benefit" means such Participant's benefit under this Plan.

(F) Distributions to Newly Eligible Employees

- (i) In the case of a Participant who first becomes an Eligible Employee under this Plan (as determined under Section 4) after December 31, 2005, the payment of benefits under this Plan shall be made in a lump sum in accordance with this subsection (F) upon the Participant's Separation from Service, except as provided in paragraph (ii).
- (ii) The Participant may elect to change the form of the payment of benefits under this Plan, as follows:
- (a) The Participant may elect, in writing, to change the form of payment of such benefit to any of the following annuity options: (I) a straight life annuity, (II) a joint and 50% survivor annuity, and (III) a joint and 100% survivor annuity. The amount of such optional annuity benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The Participant's election shall be subject to subparagraphs (b), (c), (d), (e) and (f). Except as provided in subparagraph (e), the Participant's election under this subparagraph (a) shall be irrevocable. The joint and survivor annuity is only available under clause (II) or (III) if the Participant designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan as part of the Participant's election. If the spouse, or beneficiary dies before the Participant's Separation from Service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity; provided, that the straight life annuity is actuarially equivalent, applying reasonable actuarial methods and assumptions, to the joint and survivor annuity in effect prior to such cancellation, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
- (b) The Participant's election under subparagraph (a) must be made prior to the Participant's Separation from Service.
- (c) The Participant's election under subparagraph (a) shall not take effect until 12 months after his election is made in accordance with Treasury Regulation Section 1.409A-2(b)(1)(i). If the Participant has a Separation from Service before the election under subparagraph (a) becomes effective, the election under subparagraph (a) shall terminate and the Participant's benefit shall be paid in a lump sum payment under paragraph (i).
- (d) In the event the Participant's election under subparagraph (a) becomes effective, the payment of benefits under the annuity option shall be deferred for a period of five years from the date such payment would otherwise have been paid (or, in the case of a life annuity treated as a single payment, five years from the date the first amount was scheduled to be paid), in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).
- (e) The Participant may elect to change the annuity form of payment elected under subparagraph (a) to another annuity form of payment specified under subparagraph (a) and such election shall be effective immediately; provided, that such change is made prior to the commencement of the payment of benefits under this Plan; and, provided, further, that the annuity form of payment is actuarially equivalent applying reasonable actuarial methods and assumptions to the annuity form of payment, as in effect at the time of the election, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
- (f) Any change in a Participant's form of payment under this paragraph (ii) shall be in accordance with Treasury Regulation Section 1.409A-2(b).
- (iii) A lump sum payment under paragraph (F)(i) shall be paid on such date as is determined by Sempra Energy within thirty (30) days following the Participant's Separation from Service. An annuity under this subsection (F) shall be paid monthly, beginning on the last day of the month in which the date determined under subparagraph (F)(i)(d) occurs and shall continue to be paid monthly during the life of the Participant and the life of the Participant's designated beneficiary, if any (if such beneficiary survives the Participant). In all cases, the monthly benefit shall equal the annual benefit divided by 12.

(G) Death Benefits

If a Participant dies prior to the commencement of benefits under this Plan on or after his or her Separation from Service (or, in the case of a Participant described in subsection (A), such Participant's Pre-Section 409A Death Benefit (if any), prior to the commencement of benefits under this Plan on or after such Participant's Retirement Date or Termination), the payment of death benefits to such Participant's beneficiary(ies) shall be made in accordance with this subsection (G).

- (i) The death benefits payable to such Participant's beneficiary(ies) under this subsection (G) shall be computed as specified in Section 5 of this Plan using the actuarial factors specified in the Basic Plan.
- (ii) The death benefits payable to such Participant's beneficiary(ies) under this subsection (G) shall be in lieu of any benefits that would have been payable under the other provisions of this Section 6, if such Participant had survived until the date of commencement of benefits.
- (iii) The death benefits payable to such Participant's beneficiary(ies) under this subsection (G) shall be payable in a lump sum payment on such date as is determined by Sempra Energy during the thirty (30) day period commencing upon such Participant's death; provided, however, that, in the case of a Participant described in subsection (A), such Participant's Pre-Section 409A Death Benefit (if any) shall be paid in the same payment form and at the same time as the payment of pre-commencement death benefits on behalf of such Participant under the Basic Plan and such Participant's Post-Section 409A Death Benefit shall be payable in a lump sum on such date as is determined by Sempra Energy during the thirty (30) day period commencing upon such Participant's death.
- (iv) For purposes of this subsection (G) and Section 9,

- (a) in the case of a Participant described in subsection (A), such Participant's "Pre-Section 409A Death Benefit" means the portion of the death benefits payable to such Participant's beneficiary(ies) under this subsection (G), if any, to which such Participant had a legal binding right, and which was earned and vested, as of December 31, 2004, determined in accordance with Section 409A of the Code and Treasury Regulation Section 1.409A-6. Such Participant's "Pre-Section 409A Death Benefit" shall be determined by the terms of the Plan and the Basic Plan, as in effect as of October 3, 2004 and in a manner consistent with paragraph (E)(i) and Treasury Regulation Section 1.409A-6(a)(3)(i), and
- (b) in the case of a Participant described in subsection (A), such Participant's "Post-Section 409A Death Benefit" means the death benefit payable to such Participant's beneficiary(ies) under this subsection (G), less such Participant's Pre-Section 409A Death Benefit.

(H) Mandatory Distribution

Notwithstanding subsections (A), (B), (C), (D) and (F), if actuarial value of a Participant's benefit hereunder as of the date of the Participant's Separation from Service is less than \$10,000, the benefit shall be distributed in a lump sum upon the Participant's Separation from Service in accordance with Treasury Regulation Section 1.409A-3(j)(4)(v). Such lump sum payment shall be paid on such date as is determined by Sempra Energy within thirty (30) days following the Participant's Separation from Service. Such lump sum payment shall be made only if such payment satisfies the requirement of Treasury Regulation Section 1.409A-3(j)(4)(v)(A).

(I) Distributions to Specified Employees

Notwithstanding the foregoing, in the case of a Participant who is a Specified Employee on the date of such Participant's Separation from Service, the payment of such Participant's Post-Section 409A Benefit to such Participant shall not be made before the date which is six months after the date of such Participant's Separation from Service (or, if earlier, the date such Participant's death) in accordance with Section 409A(a)(2)(B)(i) of the Code and the Treasury Regulations thereunder. Any payment of such Participant's Post-Section 409A Benefit to which such Participant otherwise would have been entitled during the first six months following the date of such Participant's Separation from Service shall be accumulated (with interest at the annual rate of interest on 30-year Treasury securities for the November next preceding the first day of the calendar year in which such Participant's Separation from Service occurs) and paid on the first day of the seventh month following the date of such Participant's Separation from Service (or, if earlier, the date of such Participant's death) in accordance with Section 409A(a)(2)(B)(i) and the Treasury Regulations thereunder.

(J) Prohibition on Acceleration of Distributions

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

(K) Conformance of Time and Form of Payment under the SERP

- (i) If a Participant is or becomes a participant in the SERP, the payment of such Participant's "Post-Section 409A Supplemental Retirement Benefit" (as defined in the SERP) to such Participant under the SERP shall be made or commence on the date of the payment or commencement of such Participant's Post-Section 409A Benefit under this Plan, and the form of payment of such Participant's "Post-Section 409A Supplemental Retirement Benefit" (as defined in the SERP) under the SERP shall be the same as the form of payment of such Participant's Post-Section 409A Benefit under this Plan.
- (ii) In the event that a Participant elects to change the form of the payment of such Participant's Post-Section 409A Benefit under this Plan, such Participant shall be deemed to have elected to change the form of the payment of such Participant's "Post-Section 409A Supplemental Retirement Benefit" (as defined in the SERP) under the SERP to the form of the payment of such Participant's Post-Section 409A Benefit under this Plan. Any such election shall be subject to the provisions of subsection (B), (D) or (F), as applicable, and the provisions of the SERP and, in any event, the time and form of payment of such Participant's "Post-Section 409A Supplemental Retirement Benefit" under the SERP shall be the same as the time and form of payment of such Participant's Post-Section 409A Benefit under this Plan.

7. EMPLOYEE'S RIGHTS

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

8. AMENDMENT AND DISCONTINUANCE

The Company expects to continue this Plan indefinitely, but reserves to the Compensation Committee the right to amend or discontinue the Plan if, in the Compensation Committee's sole judgment, such a change is deemed necessary or desirable. However, if the Compensation Committee shall amend or discontinue this Plan, the Company shall be liable for any benefits accrued under this Plan as of the date of such amendment or termination determined on the basis of each employee's presumed termination of employment as of such date. Provided further, that if the Department of Labor determines, or issues regulations under which, the Plan would be subject to Parts 2 and/or 3 of Title I of ERISA, the Compensation Committee may take such action or actions as it deems appropriate. Such actions may include, but are not limited to, modification, termination or partial termination of the Plan. In the event of such modification, termination, or partial termination, the Compensation Committee may make immediate distribution of the benefits of some or all of the Participant's benefits, as it deems necessary or appropriate, to the extent such distribution is in accordance with Section 409A of the Code and the Treasury Regulations thereunder.

9. DEFINITIONS

"Basic Plan" means the Sempra Energy Cash Balance Plan, as amended from time to time.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Company" means Sempra Energy and any successor corporation. "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 member, if such corporation maintains the Basic Plan for the benefit of its employees.

“Eligible Employee” means an Employee who has become eligible for benefits under the Plan, as determined in Section 4.

“Employee” means an individual who is an employee of the Company.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“Lump Sum Option” shall have the meaning set forth in the Basic Plan.

“Retirement Date” shall have the meaning set forth in the Basic Plan.

“Separation from Service”, with respect to a Participant (or another Service Provider) means the Participant’s (or such Service Provider’s) “separation from service,” as defined in Treasury Regulation Section 1.409A-1(h).

Effective as of January 1, 2008, and in accordance with Treasury Regulation Section 1.409A-1(h)(3) (and the transitional relief under Internal Revenue Service Notice 2005-1, the proposed regulations under Section 409A of the Code and Internal Revenue Service Notice 2006-79), and in connection with the formation of RBS Sempra Commodities (as defined in Section 10), with respect to the benefits payable under this Plan to a Participant who is an employee of SET LLC or SES (each, as defined in Section 11), and who is a Transferred Employee (as defined in Section 10), the foregoing definition of “Separation from Service” shall be applied by determining the “service recipient,” as defined in Treasury Regulation Section 1.409A-1(g), by substituting the language “at least 20%” for the language “at least 80%” and applying Sections 1563(a)(1), (2) and (3) for purposes of determining a controlled group of corporations under Section 414(b) of the Code and in applying Treasury Regulation Section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c) of the Code. This paragraph shall not apply with respect to the benefits payable under this Plan to any other Participant.

“SERP” means the Sempra Energy Supplemental Executive Retirement Plan, as amended from time to time.

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

“Service Recipient,” with respect to a Participant, means the Company and all persons considered part of the “service recipient,” as defined in Treasury Regulation Section 1.409A-1(g), as determined from time to time. As provided in Treasury Regulation Section 1.409A-1(g), the “Service Recipient” shall mean the person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Section 414(b) or 414(c) of the Code.

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

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

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

“Termination” shall have the meaning set forth in the Basic Plan.

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

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

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

(A) Background

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

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

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

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

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

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

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

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

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

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

(C) Separation from Service

- (i) Effective as of the Closing, RBS Sempra Commodities will be a member of a group of trades or businesses (whether or not incorporated) under common control for purposes of Section 414(c) of the Code and Treasury Regulation Section 1.414(c)-2, as determined under Treasury Regulation Section 1.409A-1(h)(3), that includes Sempra Energy and its wholly-owned subsidiaries. Consequently, effective as of the Closing, RBS Sempra Commodities will be included in the “service recipient” that includes Sempra Energy and its wholly-owned subsidiaries, as defined under Treasury Regulation Section 1.409A-1(h)(3).
- (ii) A Participant who is an employee of SET LLC or SES, and who is a Transferred Employee effective as of the Closing Date, will not have a Separation from Service solely as a result of the purchase of the membership interests of SET LLC by RBS Sempra Commodities effective as of the Closing.
- (iii) A Participant who is an employee of SET LLC or SES, who is an Inactive Employee, and who becomes a Transferred Employee effective on a Transfer Date after the Closing Date, will not have a Separation from Service solely as a result of the purchase of the membership interests of SET LLC by RBS Sempra Commodities or becoming a Transferred Employee on a Transfer Date after the Closing Date.
- (iv) For purposes of the Plan, a Participant who is an employee of SET LLC or SES, and who is or becomes a Transferred Employee, will have a Separation from Service on or after the Closing Date (or the Transfer Date, if applicable), as determined under Section 10 and Treasury Regulation Section 1.409A-1(h).

(D) Certain Defined Terms

For purposes of this Section 11, the terms “Closing,” “Closing Date,” “Inactive Employee,” “Sempra Plans,” “Transferred Employees” and “Transfer Date” shall have the meanings ascribed to such terms under the Master Formation Agreement.

11. SECTION 409A OF THE CODE

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

by the Internal Revenue Service, Sempra Energy may amend this Plan, or take such other actions as Sempra Energy deems reasonably necessary or appropriate, to ensure that such amounts comply with the requirements of Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service. In the case of any deferred compensation amounts under this Plan that are subject to Section 409A of the Code, if any provision of the Plan would cause such amounts to fail to so comply, such provision shall be deemed amended, or shall not be effective and shall be null and void, to the extent necessary to cause such amounts to comply with Section 409A(a)(2), (3) and (4) of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service.

(B) The Plan provides that benefits under the Plan are determined under the formula for determining benefits under the Basic Plan (which is a qualified employer plan, as defined in Treasury Regulation Section 1.409A-1(a)(2)), applied without regard to the limitations applicable to the Basic Plan under Sections 401(a)(17) and 415 of the Code, and after an offset of the benefits provided under the Basic Plan.

Accordingly, the Plan is intended to be a nonqualified deferred compensation plan subject to Treasury Regulation Sections 1.409A-2(a)(9) and 1.409A-3(j)(5).

12. CLAIMS PROCEDURE

(A) Claim

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

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

(B) Claim Decision

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

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

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

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

(C) Request for Review

With 60 days after the receipt by the Claimant of the denial of the claim described above, the Claimant may request in writing a review the determination of the Compensation Committee. Such review shall be completed by the Compensation Committee. Such request must be addressed to the Compensation Committee of Sempra Energy, at its then principal place of business.

The Claimant shall be afforded the opportunity to submit written comments, documents, records, and other information relating to the claim, and the Claimant shall be provided, upon request and free of charge, reasonable access to all documents, records, and other information relevant to the Claimant’s claim. A document, record or other information shall be considered “relevant” to the claim, as provided in Department of Labor Regulation Section 2560.503-1(m)(8). The review by the Compensation Committee shall take into account all comments, documents, records, and other information submitted by the Claimant, without regard to whether such information was submitted or considered in the Compensation Committee’s initial determination with respect to the claim.

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

(D) Review of Decision

The Compensation Committee shall inform the Claimant in writing, in a manner calculated to be understood by the Claimant, the decision on the review of the denial of the claim, setting forth: (i) the specific reasons for the decision, (ii) if the claim is denied, reference to the

specific Plan provisions on which the denial of the claim is based; (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the Claimant's claim (and a document, record or other information shall be considered "relevant" to the benefits claim, as provided in Department of Labor Regulation Section 2560.503-1(m)(8)); and (iv) a statement describing Claimant's right to bring an action under Section 502(a) of ERISA.

13. MISCELLANEOUS

(A) 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.

(B) 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 benefit under the Plan 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 this subsection (B), a Participant's benefit may be transferred pursuant to a domestic relations order that constitutes a "qualified domestic relations order" as defined by the Code or Title I of ERISA.

(C) Withholding

There shall be deducted from each payment made under the Plan 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.

(D) Governing Law

This Plan shall be construed, governed and administered in accordance with the ERISA and, to the extent not preempted by ERISA, the laws of the State of California (without regard to the conflicts of laws principles thereof).

(E) 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 Compensation 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 prior to the payment date specified under the Plan.

(F) 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 Compensation Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Compensation Committee may direct that such payment be made to any person found by the Compensation 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 Compensation Committee and the Company.

(G) 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 any Participant be modified or in any be effected by the provisions of the Plan.

(H) Notice

Any notice or filing required or permitted to be given to the Compensation 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 Sempra Energy. 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.

(I) Errors and Misstatements

In the event of any misstatement or omission of fact by a Participant to the Compensation Committee or any clerical error resulting in payment of benefits in an incorrect amount, the Compensation 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 Compensation 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

(J) Pronouns and Plurality

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

(K) 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.

(L) 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.

Executed at San Diego, California this 11th day of December, 2008.

SEMPRA ENERGY

By:

G. Joyce Rowland
Sr. Vice President, Human Resources

**AMENDED AND RESTATED
SEMPRA ENERGY
SEVERANCE PAY AGREEMENT**

THIS AGREEMENT (this "Agreement"), dated as of November 4, 2008, is made by and between SEMPra ENERGY, a California corporation ("Sempra Energy"), and _____ (the "Executive").

WHEREAS, Sempra Energy and the Executive entered into the Sempra Energy Severance Pay Agreement, dated as of _____ (the "Prior Agreement"); and

WHEREAS, Sempra Energy and the Executive desire to amend and restate the Prior Agreement to conform to the requirements of Section 409A of the Code (as defined below) and the Treasury Regulations thereunder, or certain exemptions from Section 409A of the Code; and

WHEREAS, the Executive is currently employed by Sempra Energy or a direct or indirect subsidiary of Sempra Energy (Sempra Energy and its subsidiaries are hereinafter collectively referred to as the "Company") as _____; and

WHEREAS, the Board of Directors of Sempra Energy (the "Board") has authorized this amendment and restatement of the Prior Agreement.

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

Section 1. Definitions

. For purposes of this Agreement, the following capitalized terms have the meanings set forth below:

"Accounting Firm" has the meaning assigned thereto in Section 9(b) hereof.

"Act" has the meaning assigned thereto in Section 2 hereof.

"Additional Post-Change in Control Severance Payment" has the meaning assigned thereto in Section 6(a) hereof.

"Affiliate" has the meaning set forth in Rule 12b-2 promulgated under the Exchange Act.

"Annual Base Salary" means the Executive's annual base salary from the Company.

"Asset Purchaser" has the meaning assigned thereto in Section 16(e).

"Asset Sale" has the meaning assigned thereto in Section 16(e).

"Average Annual Bonus" means the average of the annual bonuses from the Company earned by the Executive with respect to the three (3) fiscal years of the Company immediately preceding the Date of Termination (the "Bonus Fiscal Years"); *provided, however*, that, if the Executive was employed by the Company during all or any portion of one or two of the Bonus Fiscal Years (but not three of the Bonus Fiscal Years), "Average Annual Bonus" means the average of the annual bonuses (if any) from the Company earned by the Executive with respect to the Bonus Fiscal Years during all or any portion of which the Executive was employed by the Company; and, *provided, further*, that, if the Executive was not employed by the Company during all or any portion of any of the Bonus Fiscal Years, "Average Annual Bonus" means zero.

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

"Cause" means:

(a) Prior to a Change in Control, (i) the willful 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, (ii) the grossly negligent performance of such obligations referenced in clause (i) of this definition, (iii) the Executive's gross insubordination; and/or (iv) 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 subsection (a), no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or 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 interests of the Company.

(b) From and after a Change in Control, (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 3 hereof) and/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 subsection (b), no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or 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 interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this subsection (b) unless and until the Executive shall have been provided with reasonable notice of and, if possible, a reasonable opportunity to cure the facts and circumstances claimed to provide a basis for termination of the Executive's employment for Cause.

"Change in Control" shall be deemed to have occurred on the date that a change in the ownership of Sempra Energy, a change in the effective control of Sempra Energy, or a change in the ownership of a substantial portion of assets of Sempra Energy occurs (each, as defined in subsection (a) below), except as otherwise provided in subsections (b), (c) and (d) below:

(a) (i) a “change in the ownership of Sempra Energy” occurs on the date that any one person, or more than one person acting as a group, acquires ownership of stock of Sempra Energy that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of Sempra Energy,

(ii) a “change in the effective control of Sempra Energy” occurs only on either of the following dates:

(A) the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of Sempra Energy possessing thirty percent (30%) or more of the total voting power of the stock of Sempra Energy, or

(B) the date a majority of the members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of appointment or election, and

(iii) a “change in the ownership of a substantial portion of assets of Sempra Energy” occurs on the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from Sempra Energy that have a total gross fair market value equal to or more than eighty-five percent (85%) of the total gross fair market value of all of the assets of Sempra Energy immediately before such acquisition or acquisitions.

(b) A “change in the ownership of Sempra Energy” or “a change in the effective control of Sempra Energy” shall not occur under clause (a)(i) or (a)(ii) by reason of any of the following:

(i) an acquisition of ownership of stock of Sempra Energy directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business,

(ii) 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 the Company, 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

(iii) 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 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.

(c) A “change in the ownership of a substantial portion of assets of Sempra Energy” shall not occur under clause (a)(iii) by reason of a sale or disposition by Sempra Energy of the assets of Sempra Energy 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.

(d) This definition of “Change in Control” shall be limited to the definition of a “change in control event” relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5). A “Change in Control” shall only occur if there is a “change in control event” relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5) with respect to the Executive.

“Change in Control Date” means the date on which a Change in Control occurs.

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

“Compensation Committee” means the compensation committee of the Board.

“Consulting Period” has the meaning assigned thereto in Section 14(e) hereof.

“Date of Termination” has the meaning assigned thereto in Section 3(b) hereof.

“Deferred Compensation Plan” has the meaning assigned thereto in Section 5(f) hereof.

“Disability” has the meaning set forth in the Company’s long-term disability plan or its successor; *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.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the applicable rulings and regulations thereunder.

“Effective Date” means _____.

“Excise Tax” has the meaning assigned thereto in Section 9(a) hereof.

“Good Reason” means:

(e) Prior to a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 3 hereof):

(i) the assignment to the Executive of any duties materially inconsistent with the range of duties and responsibilities appropriate to a senior Executive within the Company (such range determined by reference to past, current and reasonable practices within the Company);

(ii)

a material reduction in the Executive's overall standing and responsibilities within the Company, but not including (A) a mere change in title or (B) a transfer within the Company, which, in the case of both (A) and (B), does not adversely affect the Executive's overall status within the Company;

(iii) a material reduction by the Company in the Executive's aggregate annualized compensation and benefits opportunities, except for across-the-board reductions (or modifications of benefit plans) similarly affecting all similarly situated executives (both of the Company and of any Person then in control of the Company) of comparable rank with the Executive;

(iv) the failure by the Company to pay to the Executive any portion of the Executive's current compensation and benefits or 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 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

(vi) the failure by Sempra Energy to perform its obligations under Section 16(c), (d) or (e) hereof;

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 11 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy to comply with any material provision of this Agreement.

(f) From and after a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 3 hereof):

(i) an adverse change in the Executive's title, authority, duties, responsibilities or reporting lines as in effect immediately prior to the Change in Control;

(ii) a reduction by the Company in the Executive's aggregate annualized compensation opportunities, except for across-the-board reductions in base salaries, annual bonus opportunities or long-term incentive compensation opportunities of less than ten percent (10%) similarly affecting all similarly situated executives (both of the Company and of any Person then in control of the Company) of comparable rank with the Executive; or the failure by the Company to continue in effect any material benefit plan in which the Executive participates immediately prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Executive's participation relative to other participants, as existed at the time of the Change in Control;

(iii) the relocation of the Executive's principal place of employment immediately prior to the Change in Control Date (the "Principal Location") to a location which is both further away from the Executive's residence and more than thirty (30) miles from such Principal Location, or the Company's requiring the Executive to be based anywhere other than such Principal Location (or permitted relocation thereof), 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 of limited duration 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 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 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

(vi) the failure by Sempra Energy to perform its obligations under Section 16(c), (d) or (e) hereof;

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 11 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy to comply with any material provision of this Agreement.

Following a Change in Control, 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 pursuant to the procedure described in Section 13 hereof. 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.

"Gross-Up Payment" has the meaning assigned thereto in Section 9(a) hereof.

"Incentive Compensation Awards" means awards granted under Incentive Compensation Plans providing the Executive with the opportunity to earn, on a year-by-year basis, annual and long-term incentive compensation.

"Incentive Compensation Plans" means annual incentive compensation plans and long-term incentive compensation plans of the Company, which long-term incentive compensation plans may include plans offering stock options, restricted stock and other long-term incentive compensation.

"Involuntary Termination" means (a) the Executive's Separation from Service by reason of a termination of employment by the Company other than for Cause, death, or Disability, or (b) the Executive's Separation from Service by reason of resignation of employment with the Company for Good Reason.

"JAMS Rules" has the meaning assigned thereto in Section 13 hereof.

“Notice of Termination” has the meaning assigned thereto in Section 3(a) hereof.

“Payment” has the meaning assigned thereto in Section 9(a) hereof.

“Payment in Lieu of Notice” has the meaning assigned thereto in Section 3(b) hereof.

“Person” has the meaning set forth in section 3(a)(9) of 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 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 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) promulgated under the Exchange Act.

“Post-Change in Control Accrued Obligations” has the meaning assigned thereto in Section 6(a) hereof.

“Post-Change in Control Severance Payment” has the meaning assigned thereto in Section 6 hereof.

“Pre-Change in Control Accrued Obligations” has the meaning assigned thereto in Section 5(a) hereof.

“Pre-Change in Control Severance Payment” has the meaning assigned thereto in Section 5 hereof.

“Principal Location” has the meaning assigned thereto in clause (b)(iii) of the definition of Good Reason, above.

“Proprietary Information” has the meaning assigned thereto in Section 14(a) hereof.

“Release” has the meaning assigned thereto in Section 14(d) hereof.

“Section 409A Payments” means any of the following: (a) the Payment in Lieu of Notice, (b) the Pre-Change in Control Severance Payment, (c) the Post-Change in Control Severance Payment, (d) the Additional Post-Change in Control Severance Payment, (e) the Consulting Payment, (f) the payment under Section 6(b) (but only to the extent such payment or portion thereof is subject to Section 409A of the Code), (g) the financial planning services and the related tax gross up payments provided under Sections 5(e) and 6(f), (h) the Gross-Up Payments under Section 9, and (i) the legal fees and expenses reimbursed under Section 15.

“Sempra Energy Control Group” means Sempra Energy and all persons with whom Sempra Energy would be considered a single employer under Section 414(b) or 414(c) of the Code, as determined from time to time.

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

“SERP” has the meaning assigned thereto in Section 6(b) hereof.

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

“Service Recipient,” with respect to the Executive, means Sempra Energy (if the Executive is employed by Sempra Energy), or the subsidiary of Sempra Energy employing the Executive, whichever is applicable, and all persons considered part of the “service recipient,” as defined in Treasury Regulation Section 1.409A-1(g), as determined from time to time. As provided in Treasury Regulation Section 1.409A-1(g), the “Service Recipient” shall mean the person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Section 414(b) or 414(c) of the Code.

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

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

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

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

“Underpayment” has the meaning assigned thereto in Section 9(b) hereof.

For purposes of this Agreement, references to any “Treasury Regulation” shall mean such Treasury Regulation as in effect on the date hereof.

Section 2.

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 benefit(s) 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. In addition, if the Executive is required to forfeit or to make any repayment of any compensation or benefit(s) to the Company under the Act or any other law, such forfeiture or repayment shall not constitute Good Reason.

Section 3. Notice and Date of Termination

(a) Any termination of the Executive’s employment by the Company or by the Executive shall be communicated by a written notice of termination to the other party (the “Notice of Termination”). Where applicable, the Notice of Termination shall indicate the specific termination provision in this Agreement relied upon 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. 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.

(b) The date of the Executive’s termination of employment with the Company (the “Date of Termination”) shall be determined as follows: (i) if the Executive has a Separation from Service by reason of the Company terminating his or her employment, either with or without Cause, the Date of Termination shall be the date specified in the Notice of Termination (which, in the case of a termination by the Company other than for Cause, shall not be less than two (2) weeks from the date such Notice of Termination is given unless the Company elects to pay the Executive, in addition to any other amounts payable hereunder, an amount (the “Payment in Lieu of Notice”) equal to two (2) weeks of the Executive’s Annual Base Salary in effect on the Date of Termination), and (ii) if the basis for the Executive’s Involuntary Termination is his resignation for Good Reason, the Date of Termination shall be determined by the Executive and specified in the Notice of Termination, but shall not in any event be less than fifteen (15) days nor more than sixty (60) days after the date such Notice of Termination is given. The Payment in Lieu of Notice shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Executive’s Separation from Service; *provided, however*, that if the Executive is a Specified Employee on the date of his or her Separation from Service, such Payment in Lieu of Notice shall be paid as provided in Section 10 hereof.

Section 4. Termination from the Board. Upon the termination of the Executive’s employment for any reason, the Executive’s membership on the Board, the board of directors of any of the Company’s Affiliates, any committees of the Board and any committees of the board of directors of any of the Company’s Affiliates, if applicable, shall be automatically terminated.

Section 5. Severance Benefits upon Involuntary Termination Prior to Change in Control

Except as provided in Section 6 and Section 19(i) hereof, in the event of the Involuntary Termination of the Executive prior to a Change in Control, the Company shall pay the Executive, in one lump sum cash payment, an amount (the “Pre-Change in Control Severance Payment”) equal to the greater of: (X) ___% of the Executive’s Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive’s Annual Base Salary as in effect on the Date of Termination, plus the Executive’s Average Annual Bonus. In addition to the Pre-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (e). Except as provided in Section 5(f), the Pre-Change in Control Severance Payment and the payment under Section 5(a) shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Involuntary Termination; *provided, however*, that, if the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination, the Pre-Change in Control Severance Payment and the financial planning services and the related tax gross up payments provided under Section 5(e) shall be paid as provided in Section 10 hereof.

(a) 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, (C) any accrued and unpaid vacation, if any, and (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, in each case to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C) and (D) shall be hereinafter referred to as the “Pre-Change in Control Accrued Obligations”).

(b) Equity Based Compensation. The Executive shall retain all rights to any equity-based compensation awards to the extent set forth in the applicable plan and/or award agreement.

(c) Welfare Benefits. Subject to Section 12 below, for a period of ___ months following the date of the Involuntary Termination (and an additional ___ months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of the Involuntary Termination; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of the Involuntary Termination. Such benefits shall be provided through insurance maintained by the Company under the Company’s benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5).

(d) Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive’s Involuntary Termination, for a period of ___ months following the date of the Involuntary Termination, in an aggregate amount of cost to the Company 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. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(e) Financial Planning Services. The Executive shall receive financial planning services, on an in-kind basis, for a period of ___ months following the Date of Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial planning services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and

shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv).

(f) Deferral of Payments. The Executive shall have the right to elect to defer the Pre-Change in Control Severance Payment to be received by the Executive pursuant to this Section 5 under the terms and conditions of the Sempra Energy 2005 Deferred Compensation Plan (the "Deferred Compensation Plan"). Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 6. Severance Benefits upon Involuntary Termination in Connection with and after Change in Control

Notwithstanding the provisions of Section 5 above, and except as provided in Section 19(i) hereof, in the event of the Involuntary Termination of the Executive on or within two (2) years following a Change in Control, in lieu of the payments described in Section 5 above, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Post-Change in Control Severance Payment") equal to ___ times the greater of: (X) ___% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or the Date of Termination, whichever is greater, and (Y) the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, plus the Executive's Average Annual Bonus. In addition to the Post-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (f). Except as provided in Sections 6(g) and 6(h), the Post-Change in Control Severance Payment and the payments under Sections 6(a) and (b) shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Involuntary Termination; *provided, however*, that, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Post-Change in Control Severance Payment, the Additional Post-Change in Control Severance Payment under Section 6(a)(E), the payment under Section 6(b) (but only to the extent such payment or portion thereof is subject to Section 409A of the Code), and the financial planning services and the related tax gross up payments provided under Section 6(f) shall be paid as provided in Section 10 hereof.

(a) 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, (C) any accrued and unpaid vacation, if any, (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, and (E) an amount (the "Additional Post-Change in Control Severance Payment") equal to: (i) the greater of: (X) ___% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, or (Y) the Executive's Average Annual Bonus, multiplied by (ii) 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 the case of each amount described in clause (A), (B), (C) or (D) to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C), (D) and (E) shall be hereinafter referred to as the "Post-Change in Control Accrued Obligations").

(b) Pension Supplement. The Executive shall be entitled to receive a Supplemental Retirement Benefit under the Sempra Energy Supplemental Executive Retirement Plan, as in effect from time to time ("SERP"), determined in accordance with this Section 6(b), in the event that the Executive is a "Participant" (as defined in the SERP) as of the Date of Termination. Such Supplemental Retirement Benefit shall be determined by crediting the Executive with additional months of Service (if any) equal to the number of full calendar months from the Date of Termination to the date on which the Executive would have attained age 62. The Executive shall be entitled to receive such Supplemental Retirement Benefit without regard to whether the Executive has attained age 55 or completed five years of "Service" (as defined in the SERP) as of the Date of Termination. The Executive shall be treated as qualified for "Retirement" (as defined in the SERP) as of the Date of Termination, and the Executive's Vesting Factor with respect to the Supplemental Retirement Benefit shall be 100%. The Executive's Supplemental Retirement Benefit shall be calculated based on the Executive's actual age as of the date of commencement of payment of such Supplemental Retirement Benefit (the "SERP Distribution Date"), and by applying the applicable early retirement factors under the SERP, if the Executive has not attained age 62 but has attained age 55 as of the SERP Distribution Date. If the Executive has not attained age 55 as of the SERP Distribution Date, the Executive's Supplemental Retirement Benefit shall be calculated by applying the applicable early retirement factor under the SERP for age 55, and the Supplemental Retirement Benefit otherwise payable at age 55 shall be actuarially adjusted to the Executive's actual age as of the SERP Distribution Date using the following actuarial assumptions: (i) the applicable mortality table promulgated by the Internal Revenue Service under Section 417(e)(3) of the Code, as in effect on the first day of the calendar year in which the SERP Distribution Date occurs, and (ii) the applicable interest rate promulgated by the Internal Revenue Service under Section 417(a)(3) of the Code for the November next preceding the first day of the calendar year in which the SERP Distribution Date occurs. The Executive's Supplemental Retirement Benefit shall be determined in accordance with this Section 6(b), notwithstanding any contrary provisions of the SERP and, to the extent subject to Section 409A of the Code, shall be paid in accordance with Treasury Regulation Section 1.409A-3(c)(1). The Supplemental Retirement Benefit paid to or on behalf of the Executive in accordance with this Section 6(b) shall be in full satisfaction of any and all of the benefits payable to or on behalf of the Executive under the SERP.

(c) Equity-Based Compensation. Notwithstanding the provisions of any applicable equity-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, awards covered under Section 162(m) of the Code, and dividend equivalents) held by the Executive 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 Incentive Compensation Plan and Incentive Compensation Award agreement, and any restrictions on any such Incentive Compensation Awards shall automatically lapse; *provided, however*, that any such stock option or stock appreciation rights awards granted on or after June 26, 1998 shall remain outstanding and exercisable until the earlier of (A) the later of eighteen (18) months following the Date of Termination or the period specified in the applicable Incentive Compensation Award agreements or (B) the expiration of the original term of such Incentive Compensation Award (or, if earlier, the tenth anniversary of the original date of grant) (it being understood that all Incentive Compensation Awards granted prior to or after June 26, 1998 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).

(d) Welfare Benefits. Subject to Section 12 below, for a period of ___ months following the date of Involuntary Termination (and an additional ___ months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided 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 Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive. Such

benefits shall be provided through insurance maintained by the Company under the Company benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5).

(e) **Outplacement Services.** The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of ____ months following the date of Involuntary Termination (but in no event beyond the last day of the Executive's second taxable year following the Executive's taxable year in which the Involuntary Termination occurs), in the aggregate amount of cost to the Company 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. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(f) **Financial Planning Services.** The Executive shall receive financial planning services, on an in-kind basis, for a period of ____ months following the date of Involuntary Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Section 1.409A-3(i)(1)(iv).

(g) **Involuntary Termination in Connection with a Change in Control.** Notwithstanding anything contained herein, in the event of an Involuntary Termination prior to a Change in Control, if the Involuntary Termination (1) was at the request of a third party who has taken steps reasonably calculated to effect such Change in Control or (2) otherwise arose in connection with or in anticipation of such Change in Control, then the Executive shall, in lieu of the payments described in Section 5 hereof, be entitled to the Post-Change in Control Severance Payment and the additional benefits described in this Section 6 as if such Involuntary Termination had occurred within two (2) years following the Change in Control. The amounts specified in Section 6 that are to be paid under this Section 6(g) shall be reduced by any amount previously paid under Section 5. The amounts to be paid under this Section 6(g) shall be paid within thirty (30) days after the Change in Control Date of such Change in Control.

(h) **Deferral of Payments.** The Executive shall have the right to elect to defer the Post-Change in Control Severance Payment to be received by the Executive pursuant to this Section 6 under the terms and conditions of the Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 7. Severance Benefits upon 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, or if the Executive terminates employment other than for Good Reason, the Company shall have no further obligations to the Executive under this Agreement other than the Pre-Change in Control Accrued Obligations and any amounts or benefits described in Section 11 hereof.

Section 8. Severance Benefits upon Termination due to Death or Disability. If the Executive has a Separation from Service by reason of death or Disability, the Company shall pay the Executive or his estate, as the case may be, the Post-Change in Control Accrued Obligations (without regard to whether a Change in Control has occurred) and any amounts or benefits described in Section 11 hereof. 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. Such payments shall be paid on such date as determined by the Company within thirty (30) days after the date of the Separation from Service; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive's Separation from Service by reason of Disability, the Additional Post-Change in Control Severance Payment under Section 6(a)(E) shall be paid as provided in Section 10 hereof.

Section 9. 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, the "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 amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment. Unless otherwise provided herein, the Company's obligation to make Gross-Up Payments under this Section 9 shall not be conditioned upon the Executive's Separation from Service. For purposes of determining the amount of any Gross-Up Payment, the Executive shall be considered to pay federal income tax at the Executive's actual 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 Executive's actual 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 9, net of the Executive's actual reduction in federal income taxes which could be obtained from deduction of such state and local taxes, and taking into consideration the phase-out of the Executive's itemized deductions under federal income tax law.

(b) Subject to the provisions of Section 9(c) below, all determinations required to be made under this Section 9, 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 to both the Company and the Executive within fifteen (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 9, shall be paid by the Company to the Executive within five (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 9(c) below 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 ten (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 thirty (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 9(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 tribunal, 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 shall 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 9(c) above, 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 9(c) above, 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 9(c) above, 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 thirty (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 offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Notwithstanding any other provision of this Section 9, 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 9(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.

(g) Any Gross-Up Payment and any payment of any income or other taxes and any related interest and penalties to be paid by the Company under this Section 9 shall be made by the end of the Executive's taxable year next following the Executive's taxable year in which the Executive remits the related taxes. Any costs and expenses incurred by the Company on behalf of the Executive under this Section 9 due to any tax contest, audit or litigation will be paid by the Company by the end of the Executive's taxable year following the Executive's taxable year in which the taxes that are the subject of the tax contest, audit or litigation are remitted to the taxing authority, or where as a result of such tax contest, audit or litigation no taxes are remitted, the end of the Executive's taxable year following the Executive's taxable year in which the audit is completed or there is a final and nonappealable settlement or other resolution of the contest or litigation. All Gross-Up Payments shall be paid in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(v). Notwithstanding anything to the contrary in this Section 9, in no event shall any Gross-Up Payment exceed the amount of the "tax gross-up payment" on any Payment permitted under Treasury Regulation Section 1.409A-3(i)(1)(v), and interest and penalties with respect to the Gross-Up Payment or that are incurred by the Company on the Executive's behalf under this Section 9 shall be paid to the Executive only to the extent permitted under Treasury Regulation Section 1.409A-3(i)(1)(v). To the extent required by Section 409A of the Code or the Treasury Regulations thereunder, any Gross-Up Payment is made with respect to any Section 409A Payment, such Gross-Up Payment shall be payable only upon the Executive's Separation from Service and subject to Section 10.

Section 10. Delayed Distribution under Section 409A of the Code. If the Executive is a Specified Employee on the date of the Executive's Involuntary Termination (or on the date of the Executive's Separation from Service by reason of Disability), the Section 409A Payments, and to the extent required by Section 409A of the Code and the Treasury Regulations thereunder, any Gross-Up Payments made with respect to such Section 409A Payments, and any other payments or benefits under this Agreement subject to Section 409A of the Code, shall be delayed in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, and such payments or benefits shall be paid or distributed to the Executive during the thirty (30) day period commencing on the earlier of (a) the expiration of the six-month period measured from the date of the Executive's Separation from Service or (b) the date of the Executive's death. Upon the expiration of the applicable six-month period under Section 409A(a)(2)(B)(i) of the Code, all payments deferred pursuant to this Section 10 (excluding in-kind benefits) shall be paid in a lump sum payment to the Executive, plus interest thereon from the date of the Executive's Involuntary Termination through the payment date at an annual rate equal to Moody's Rate. The "Moody's Rate" shall mean the average of the daily Moody's Corporate Bond Yield Average – Monthly

Average Corporates as published by Moody's Investors Service, Inc. (or any successor) for the month next preceding the Date of Termination. Any remaining payments due under the Agreement shall be paid as otherwise provided herein.

Section 11. 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 (to the extent permissible under applicable law) 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 the 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 the Executive officer of the Company or any Affiliate. Such indemnification and D&O insurance shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(10).

Section 12. 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.

Section 13. 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 in San Diego, California in accordance with the then existing JAMS arbitration rules applicable to employment disputes (the "JAMS Rules"); *provided that*, notwithstanding any provision in such rules to the contrary, in all cases the parties shall be entitled to reasonable discovery. In the event of such an arbitration proceeding, the Executive and the Company shall select a mutually acceptable neutral arbitrator from among the JAMS panel of arbitrators. In the event the Executive and the Company cannot agree on an arbitrator, the arbitrator shall be selected in accordance with the then existing JAMS Rules. 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 to the extent necessary to enforce any arbitration award in a court of competent jurisdiction. Except as provided herein, the Federal Arbitration Act shall govern the interpretation of, enforcement of and all proceedings under this agreement to arbitrate. 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. The Executive shall not be required to pay any arbitration fee or cost that is unique to arbitration or greater than any amount he would be required to pay to pursue his claims in a court of competent jurisdiction.

Section 14. 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 and its Affiliates; and the Executive agrees that it would be extremely damaging to the Company and its Affiliates if such Proprietary Information were disclosed to a competitor of the Company and its 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 and its Affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that the Company and its 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 then Chief Executive Officer); *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 and its Affiliates relating to their education, experience, skills, abilities, compensation and benefits, and interpersonal relationships with customers of the Company and its 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 and its 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 and its Affiliates. The Executive agrees that at all times during the Executive's employment with the Company and for a period of one (1) year thereafter, he will not, directly or indirectly, solicit or recruit any employee of the Company or its Affiliates for the purpose of being employed by him or by any competitor of the Company or its 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 and its 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 or its 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 then 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 and its Affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that the Company and its 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) Survival of Provisions. The obligations contained in Section 14(a) and Section 14(b) above shall survive the termination of the Executive's employment within the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in Section 14(a) or Section 14(b) above is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

(d) Release; Lump Sum Payment. In the event of the Executive's Involuntary Termination, if the Executive (i) agrees to the covenants described in Section 14(a) and Section 14(b) above, (ii) executes a release (the "Release") of all claims substantially in the form attached hereto as Exhibit A within fifty (50) days after the date of Involuntary Termination and does not revoke such Release in accordance with the terms thereof, and (iii) agrees to provide the consulting services described in Section 14(e) below, then in consideration for such covenants, the Company shall pay the Executive, in one cash lump sum, an amount (the "Consulting Payment") in cash equal to the greater of: (X) ____% of the Executive's Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive's Annual Base Salary as in effect on the Date of Termination, plus the Executive's Average Annual Bonus. Except as provided in this subsection, the Consulting Payment shall be paid on such date as is determined by the Company within the ten (10) day period commencing on the 60th day after the date of the Executive's Involuntary Termination; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Consulting Payment shall be paid as provided in Section 10 hereof. The Executive shall have the right to elect to defer the Consulting Payment under the terms and conditions of the Company's Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

(e) Consulting. If the Executive agrees to the covenants described in Section 14(d) above, 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 Board or the Company's 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 twenty (20) hours each month; and, *provided, further*, that the consulting services rendered by the Executive during the Consulting Period shall in no event exceed twenty percent (20%) of the average level of services performed by the Executive for the Company over the thirty-six (36) month period immediately preceding the Executive's Separation from Service (or the full period of services to the Company, if the Executive has been providing services to the Company for less than thirty-six (36) months). 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.

Section 15. Legal Fees.

(a) Reimbursement of Legal Fees. Subject to subsection (b), in the event of the Executive's Separation from Service either (1) prior to a Change in Control, or (2) on or within two (2) years following a Change in Control, the Company shall reimburse the Executive for all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Executive in disputing any issue arising under this Agreement relating to the Executive's Separation from Service or in seeking to obtain or enforce any benefit or right provided by this Agreement.

(b) Requirements for Reimbursement. The Company shall reimburse the Executive's legal fees and expenses pursuant to subsection (a) above only to the extent the arbitrator or court determines the following: (i) the Executive disputed such issue, or sought to obtain or enforce such benefit or right, in good faith, (ii) the Executive had a reasonable basis for such claim, and (iii) in the case of subsection (a)(1) above, the Executive is the prevailing party. In addition, the Company shall reimburse such legal fees and expenses, only if such legal fees and expenses are incurred during the twenty (20) year period beginning on the date of the Executive's Separation from Service. The legal fees and expenses paid to the Executive for any taxable year of the Executive shall not affect the legal fees and expenses paid to the Executive for any other taxable year of the Executive. The legal fees and expenses shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the fees or expenses are incurred. The Executive's right to reimbursement of legal fees and expenses shall not be subject to liquidation or exchange for any other benefit. Such right to reimbursement of legal fees and expenses shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv). If the Executive is a Specified Employee on the date of the Executive's Separation from Service, such right to reimbursement of legal fees and expenses shall be paid as provided in Section 10 hereof.

Section 16. Successors.

(a) Assignment by the Executive. This Agreement is personal to the Executive and without the prior written consent of Sempra Energy 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 Sempra Energy. This Agreement shall inure to the benefit of and be binding upon Sempra Energy, its successors and assigns. Sempra Energy may not assign this Agreement to any person or entity (except for a successor described in Section 16(c), (d) or (e) below) without the Executive's written consent.

(c) Assumption. Sempra Energy 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 Sempra Energy to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities of this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement if no such succession had taken place, and Sempra Energy shall have no further obligations and liabilities under this Agreement. Upon such assumption, references to Sempra Energy in this Agreement shall be replaced with references to such successor.

(d) Sale of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy that is a member of the Sempra Energy Control Group, (ii) Sempra Energy, directly or indirectly through one or more intermediaries, sells or otherwise disposes of such subsidiary, and (iii) such subsidiary ceases to be a member of the Sempra Energy Control Group, then if, on the date such subsidiary ceases to be a member of the Sempra Energy Control Group, the Executive continues in employment with such subsidiary and the Executive does not have a Separation from Service, Sempra Energy shall require such subsidiary or any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to such subsidiary, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if such subsidiary had not ceased to be part of the Sempra

Energy Control Group, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to such subsidiary, or such successor or parent thereof, assuming this Agreement, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of such cessation.

(e) Sale of Assets of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy, and (ii) such subsidiary sells or otherwise disposes of substantial assets of such subsidiary to an unrelated service recipient, as determined under Treasury Regulation Section 1.409A-1(f)(2)(ii) (the "Asset Purchaser"), in a transaction described in Treasury Regulation Section 1.409A-1(h)(4) (an "Asset Sale"), then if, on the date of such Asset Sale, the Executive becomes employed by the Asset Purchaser, Sempra Energy and the Asset Purchaser shall specify, in accordance with Treasury Regulation Section 1.409A-1(h)(4), that the Executive shall not be treated as having a Separation from Service, and Sempra Energy shall require such Asset Purchaser, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if the Asset Sale had not taken place, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to the Asset Purchaser or the parent thereof, as applicable, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of the Asset Sale.

Section 17. Administration Prior to Change in Control. Prior to a Change in Control, the Compensation Committee shall have full and complete authority to construe and interpret the provisions of this Agreement, to determine an individual's entitlement to benefits under this Agreement, to make in its sole and absolute discretion all determinations contemplated under this Agreement, to investigate and make factual determinations necessary or advisable to administer or implement this Agreement, and to adopt such rules and procedures as it deems necessary or advisable for the administration or implementation of this Agreement. All determinations made under this Agreement by the Compensation Committee shall be final and binding on all interested persons. Prior to a Change in Control, the Compensation Committee may delegate responsibilities for the operation and administration of this Agreement to one or more officers or employees of the Company. The provisions of this Section 17 shall terminate and be of no further force and effect upon the occurrence of a Change in Control.

Section 18. Section 409A of the Code.

(a) Compliance with and Exemption from Section 409A of the Code. Certain payments and benefits payable under this Agreement (including, without limitation, the Section 409A Payments) are intended to comply with the requirements of Section 409A of the Code. Certain payments and benefits payable under this Agreement are intended to be exempt from the requirements of Section 409A of the Code. This Agreement shall be interpreted in accordance with the applicable requirements of, and exemptions from, Section 409A of the Code and the Treasury Regulations thereunder. To the extent the payments and benefits under this Agreement are subject to Section 409A of the Code, this Agreement shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (subject to the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79, Internal Revenue Service Notice 2007-78, Internal Revenue Service Notice 2007-86 and other applicable authority issued by the Internal Revenue Service). As provided in Internal Revenue Notice 2007-86, notwithstanding any other provision of this Agreement, with respect to an election or amendment to change a time or form of payment under this Agreement made on or after January 1, 2008 and on or before December 31, 2008, the election or amendment shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. If the Company and the Executive determine that any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code do not comply with Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, to the extent permitted under Section 409A of the Code, the Treasury Regulations thereunder and any applicable authority issued by the Internal Revenue Service, the Company and the Executive agree to amend this Agreement, or take such other actions as the Company and the Executive deem reasonably necessary or appropriate, to cause such compensation, benefits and other payments to comply with the requirements of Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, while providing compensation, benefits and other payments that are, in the aggregate, no less favorable than the compensation, benefits and other payments provided under this Agreement. In the case of any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Sections 409A (a)(2), (3) and (4) of the Code, if any provision of the Agreement would cause such compensation, benefits or other payments to fail to so comply, such provision shall not be effective and shall be null and void with respect to such compensation, benefits or other payments to the extent such provision would cause a failure to comply, and such provision shall otherwise remain in full force and effect.

(b) Deferral Elections. As provided in Sections 5(f), 6(h) and 14(d), the Executive may elect to defer the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment as follows. The Executive's deferral election shall satisfy the requirements of Treasury Regulation Section 1.409A-2(b) and the terms and conditions of the Deferred Compensation Plan. Such deferral election shall designate the whole percentage (up to a maximum of 100%) of the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment to be deferred, shall be irrevocable when made, and shall not take effect until at least twelve (12) months after the date on which the election is made. Such deferral election shall provide that the amount deferred shall be deferred for a period of not less than five (5) years from the date the payment of the amount deferred would otherwise have been made, in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).

Section 19. 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 1 hereof, or the right of the Company to terminate the Executive's employment for Cause pursuant to Section 1 hereof 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; Exclusive Benefit; Supersession of Prior Agreement. This instrument contains the entire agreement of the Executive, the Company or any predecessor or subsidiary thereof with respect to any severance or termination pay. The Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and all other benefits provided hereunder shall be in lieu of any other severance payments to which the Executive is entitled under any other severance plan or program or arrangement sponsored by the Company, as well as pursuant to any individual employment or severance agreement that was entered into by the Executive and the Company, and, upon the Effective Date of this Agreement, all such plans, programs, arrangements and agreements are hereby automatically superseded and terminated. This Agreement supersedes the Prior Agreement in its entirety, effective as of the date hereof, and the Prior Agreement shall have no further force and effect.

(g) No Right of Employment. Nothing in this Agreement shall be construed as giving the Executive any right to be retained in the employ of the Company or shall interfere in any way with the right of the Company to terminate the Executive's employment at any time, with or without Cause.

(h) Unfunded Obligation. The obligations under this Agreement shall be unfunded. Benefits payable under this Agreement shall be paid from the general assets of the Company. The Company shall have no obligation to establish any fund or to set aside any assets to provide benefits under this Agreement.

(i) Termination upon Sale of Assets of Subsidiary. Notwithstanding anything contained herein, this Agreement shall automatically terminate and be of no further force and effect and no benefits shall be payable hereunder in the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy, and (ii) an Asset Sale (as defined in Section 16(e)) occurs (other than such a sale or disposition which is part of a transaction or series of transactions which would result in a Change in Control), and (iii) as a result of such Asset Sale, the Executive is offered employment by the Asset Purchaser in an executive position with reasonably comparable status, compensation, benefits and severance agreement (including the assumption of this Agreement in accordance with Section 16(e)) and which is consistent with the Executive's experience and education, but the Executive declines to accept such offer and the Executive fails to become employed by the Asset Purchaser on the date of the Asset Sale.

(j) Term. The term of this Agreement shall commence on the Effective Date and shall continue until the third (3rd) anniversary of the Effective Date; provided, however, that commencing on the second (2nd) anniversary of the Effective Date (and each anniversary of the Effective Date thereafter), the term of this Agreement shall automatically be extended for one (1) 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. Notwithstanding the foregoing, if the Company gives such written notice to the Executive less than two (2) years after a Change in Control, the term of this Agreement shall be automatically extended until the later of (A) the date that is one (1) year after the anniversary of the Effective Date that follows such written notice or (B) the second (2nd) anniversary of the Change in Control Date.

(k) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

[remainder of page intentionally left blank]

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

EXECUTIVE

NAME

Date

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 Amended and Restated Severance Pay Agreement dated _____, 200__ (the "Severance Pay Agreement"); and

WHEREAS, Section 14(d) of the Severance Pay 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 14(d) of the Severance Pay Agreement, 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, indemnification 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. § 1981 (discrimination); (3) 29 U.S.C. §§ 621-634 (age discrimination); (4) 29 U.S.C. § 206(d)(1) (equal pay); (5) 42 U.S.C. §§ 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) the Executive Order 11246 (race, color, religion, sex and national origin discrimination); (10) the Executive Order 11141 (age discrimination); (11) §§ 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 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 the 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.

As a further material inducement to you to enter into this Agreement, the Company hereby agrees to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys' fees incurred by the Releasees, arising out of any breach of this Agreement by it or the fact that any representation made in this Agreement by it was knowingly 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 attorneys' fees; *provided*, that counsel has been approved by the Company prior to retention, which approval shall not be unreasonably withheld), 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 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. The Company agrees to reimburse you for any reasonable costs you incur in providing such cooperation.

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 and applicable Federal law. Any dispute about the validity, interpretation, effect or alleged violation of this Agreement (an "arbitrable dispute") must be submitted to arbitration in 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 then existing JAMS arbitration rules applicable to employment disputes; *provided, however*, that in any event, the arbitrator shall allow reasonable discovery. 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 (1/2) the amount of the arbitrator's fee(s); *provided, however*, that in no event shall you be required to pay any fee or cost of arbitration that is unique to arbitration or exceeds the costs you would have incurred had any arbitrable dispute been pursued in a court of competent jurisdiction. The Company shall make up any shortfall. 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 non-prevailing party all damages, costs, expenses and attorneys' fees incurred as a result of that action. The arbitrator's decision and/or award shall be rendered in writing and will be fully enforceable and subject to an entry of judgment by the Superior Court of the State of California for the County of San Diego, or any other court of competent jurisdiction.

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight (8) 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 14(d) of the Severance Pay 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 14(d) of the Severance Pay 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 14(d) of the Severance Pay Agreement. In the event the Company does not accept such offer, the Company shall so notify you and shall place 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 14(d) of the Severance Pay 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 forty-five (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 forty-five (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 (7) 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 (7th) 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 14(d) of the Severance Pay Agreement.

FOURTEEN: This Agreement constitutes the entire agreement of the parties hereto and supersedes any and all other agreements (except the Severance Pay 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].

**AMENDMENT AND RESTATEMENT OF
THE SEMPRA ENERGY 2005
DEFERRED COMPENSATION PLAN**

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Sempra Energy, a California corporation (the “Company”), and its direct and indirect subsidiaries hereby establish and maintain this Sempra Energy 2005 Deferred Compensation 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 shall be effective as of January 1, 2005.

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

The Plan is intended to comply with the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations and other guidance issued by the Secretary of the Treasury thereunder. To the extent permitted by such Treasury Regulations or other guidance, the Plan may be amended to conform to the requirements of Section 409A of the Code.

ARTICLE I. TITLE AND DEFINITIONS

1.1 Title.

This Plan shall be known as the Sempra Energy 2005 Deferred Compensation 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 and/or Company Matching 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 of the Company.
- (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 and prior to reduction for deferrals under this Plan.
- (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 any event or transaction described in paragraph (1), (2), (3) or (4) occurs, subject to paragraph (5):

(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.

(5) An event or transaction described in paragraph (1), (2), (3), or (4) shall be a “Change in Control” only if such event or transaction is a “change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation,” within the meaning of Section 409A(a)(2)(A)(v) of the Code, to the extent provided by the Secretary of the Treasury.

(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.

(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 and Bonus 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, and (iii) 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**” or “**Disabled**” means, with respect to a Participant, that the Participant:

(1) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or

(2) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three months under an accident or health plan covering employees of such Participant’s employer,

as determined in accordance with Section 409A(a)(2)(C) of the Code and the Treasury Regulations thereunder.

(t) “**Distributable Amount**” of a Participant’s subaccounts with respect to a Plan Year shall mean the sum of the vested balance of the subaccount in a Participant’s Deferral Account and Company Matching Account with respect to such Plan Year.

(u) “**Effective Date**” shall mean January 1, 2005.

(v) “**Election Period**” with respect to a Plan Year shall mean the period designated by the Committee; provided, however, that such period shall be no less than ten business days. The Election Period with respect to a Plan Year shall end not later than the last day of the prior Plan Year; *provided, however*, that, in the case of an Eligible Individual who first becomes eligible to participate in the Plan during a Plan Year, the Election Period may be the thirty (30) day period commencing on the date such Eligible Individual first becomes eligible to participate in accordance with Section 409A(a)(4)(B)(ii) of the Code and the Treasury Regulations thereunder; and provided, further, in the case of an Eligible Individual’s election to defer a Bonus (or portion thereof) for a Plan Year that is performance-based compensation based on services over a period of at least twelve (12) months, within the meaning of Section 409A(a)(4)(B)(iii) of the Code and the Treasury Regulations thereunder, the Election Period may be a period designated by the Committee during such Plan Year that satisfies the requirements of Section 409A(a)(4)(B)(iii) of the Code and the Treasury Regulations thereunder.

(w) “**Eligible Individual**” shall mean those individuals selected by the Committee from (1) those employees of the Company who either (A) are Executive Officers or (B) have Base Salary for a Calendar Year that is at least \$140,000, as adjusted by the Committee from time to time and (2) 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.

(x) “**ERISA**” shall mean the Employee Retirement Income Security Act of 1974, as amended.

(y) “**Exchange Act**” shall mean the Securities Exchange Act of 1934, as amended, and the applicable rules and regulations thereunder.

(z) “**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.

- (aa) **"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).
- (bb) **"Manager"** shall mean an employee of the Company who is an Eligible Individual, other than an Executive Officer or a Director.
- (cc) **"Measurement Fund"** shall mean one or more of the investment funds selected by the Committee pursuant to Section 4.1.
- (dd) **"Moody's Plus Rate"** shall mean the Moody's Rate (as defined below) plus the greater of (1) 10% of the Moody's Corporate Bond Yield Average – Monthly Average Corporates as published by Moody's Investors Service, Inc. (or any successor) or (2) 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.
- (ee) **"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 Accounts.
- (ff) **"Payroll Date"** shall mean, with respect to any Participant, the date on which he would otherwise be paid Compensation.
- (gg) **"Payment Date"** shall mean the date determined by the Administrator that is on or within thirty (30) days after one of the following dates as designated by the Participant in his distribution form election with respect to a Plan Year:
 - (1) the first day of the first calendar month on or next following thirty (30) days after the date of the Participant's Separation from Service or Disability, or
 - (2) the first day of the first, second, third, fourth or fifth calendar year next following the date of the Participant's Separation from Service or Disability.

"Payment Date" shall also mean the Scheduled Withdrawal Date elected in accordance with the provisions of Section 7.1(b).

- (hh) **"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 (1) the Company or any of its Affiliates, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, (4) 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 (5) a person or group as used in Rule 13d-1(b) under the Exchange Act.
- (ii) **"Plan"** shall mean the Sempra Energy 2005 Deferred Compensation Plan set forth herein, as amended from time to time.
- (jj) **"Plan Year"** shall mean the twelve (12) consecutive month period beginning on each January 1 and ending on each December 31.
- (kk) **"Restricted Stock Units"** shall mean restricted stock units granted to Executive Officers under the Sempra Energy 1998 Long Term Incentive Plan or the Sempra Energy 2008 Long Term Incentive Plan.
- (ll) **"Rule 16b-3"** shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended from time to time.
- (mm) **"Scheduled Withdrawal Date"** shall be in January in the year elected by the Participant for an in-service withdrawal of all amounts of Compensation deferred in a given Plan Year, but excluding earnings and losses attributable thereto, as set forth on the election forms for such Plan Year.
- (nn) **"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.
- (oo) **"Separation from Service"**, with respect to a Participant (or another Service Provider), means the Participant's (or such Service Provider's) "separation from service," as defined in Treasury Regulation Section 1.409A-1(h), with respect to the Service Recipient.

Effective as of January 1, 2008, and in accordance with Treasury Regulation Section 1.409A-1(h)(3) (and the transitional relief under Internal Revenue Service Notice 2005-1, the proposed regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79 and Internal Revenue Notice 2007-86), and in connection with the formation of RBS Sempra Commodities (as defined in Section 10), with respect to the benefits payable under this Plan to a Participant who is an employee of SET LLC or SES (each, as defined in Section 10), and who is a Transferred Employee (as defined in Section 10), the foregoing definition of "Separation from Service" shall be applied by determining the "service recipient," as defined in Treasury Regulation Section 1.409A-1(g), by substituting the language "at least 20%" for the language "at least 80%" and applying Sections 1563(a)(1), (2) and (3) for purposes of determining a controlled group of corporations under Section 414(b) of the Code and in applying Treasury Regulation Section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c) of the Code. This subsection shall not apply with respect to the benefits payable under this Plan to any other Participant.

- (pp) **"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.
- (qq) **"Service Provider"** means a Participant or any other "service provider," as defined in Treasury Regulation Section 1.409A-1(f), with respect to the Service Recipient.
- (rr)

“**Service Recipient**”, with respect to the Participant, means Sempra Energy (if the Participant is employed by Sempra Energy or is a Director), or the subsidiary of Sempra Energy employing the Participant, whichever is applicable, and all persons considered part of the “service recipient,” as defined in Treasury Regulation Section 1.409A-1(g), as determined from time to time. As provided in Treasury Regulation Section 1.409A-1(g), the “**Service Recipient**” shall mean the person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Section 414(b) or 414(c) of the Code.

- (ss) “**Severance Payment**” shall mean any severance payments payable to a Participant under an executive employment agreement or severance agreement with the Company.
- (tt) “**Specified Employee**” means a Service Provider who, as of the date of the Service Provider’s Separation from Service is a “**Key Employee**” of the Service Recipient any stock of which is publicly traded on an established securities market or otherwise. For purposes of this definition, a Service Provider is a “**Key Employee**” if the Service Provider meets the requirements of Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the Treasury Regulations thereunder and disregarding Section 416(i)(5) of the Code) at any time during the Testing Year. If a Service Provider is a “**Key Employee**” (as defined above) as of a Specified Employee Identification Date, the Service Provider shall be treated as “**Key Employee**” for the entire twelve (12) month period beginning on the Specified Employee Effective Date. For purposes of this definition, a Service Provider’s compensation for a Testing Year shall mean such Service Provider’s compensation, as determined under Treasury Regulation Section 1.415(c)-2(a) (and applied as if the Service Recipient were not using any safe harbor provided in Treasury Regulation Section 1.415(c)-2(d), were not using any of the elective special timing rules provided in Treasury Regulation Section 1.415(c)-2(e), and were not using any of the elective special rules provided in Treasury Regulation Section 1.415(c)-2(g)), from the Service Recipient for such Testing Year. The “Specified Employees” shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation Section 1.409A-1(i).
- (uu) “**Specified Employee Effective Date**” means the first day of the fourth month following the Specified Employee Identification Date. The Specified Employee Effective Date may be changed by Sempra Energy, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(4).
- (vv) “**Specified Employee Identification Date**” ”, for purposes of Treasury Regulation Section 1.409A-1(i)(3), shall mean December 31. The “**Specified Employee Identification Date**” shall apply to all “nonqualified deferred compensation plans” (as defined in Treasury Regulation Section 1.409A-1(a)) of the Service Recipient and all affected Service Providers. The “**Specified Employee Identification Date**” may be changed by Sempra Energy, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(3).
- (ww) “**Subaccount**” or “**Subaccounts**” shall mean the subaccount or subaccounts maintained with respect to a Participant’s Deferral Account or Company Matching Account.
- (xx) “**Testing Year**” shall mean the twelve (12) month period ending on the Specified Employee Identification Date, as determined from time to time.
- (yy) “**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.

ARTICLE II. **PARTICIPATION**

- (a) 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.
- (b) An Eligible Individual who completes the requirements of the preceding subsection shall commence participation in this Plan as of the first day of the Plan Year with respect to which Compensation is deferred.

ARTICLE III. **CONTRIBUTIONS**

3.1 Elections to Defer Compensation

- (a) **General Rule.** Each Eligible Individual may defer Compensation for a Plan Year by filing with the Administrator a Deferral Election Form for such Plan Year that conforms to the requirements of this Section 3.1, no later than the last day of the applicable Election Period for such Plan Year, and such deferral election shall become irrevocable on the last day of the applicable Election Period for such Plan Year. 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 for a Plan Year must be filed during the Election Period prior to the effective date of such election and shall be irrevocable when made and shall be effective only for Compensation that constitutes compensation for services performed during periods during the Plan Year beginning after the effective date of such election. Notwithstanding the previous sentence, if an Eligible Individual’s Bonus (or portion thereof) is a performance-based compensation based on services performed over a period of at least twelve (12) months, within the meaning of Section 409A(a)(4)(B)(iii) and the Treasury Regulations thereunder, the Committee may permit such Eligible Individual to file an election to defer such Bonus (or such portion thereof), or change such Eligible Individual’s prior election to defer such Bonus (or such portion thereof), no later than the date that is six months before the end of the performance period over which such services are to be performed, under the terms and conditions specified by the Committee, in accordance with Section 409A(a)(4)(B)(iii) of the Code and the Treasury Regulations thereunder, and such deferral election shall become irrevocable on the date that is six months before the end of the performance period. A Participant shall make a separate election to defer Compensation for each Plan Year.
- (b) **Special Rules.** Notwithstanding the above, the following restrictions apply to deferrals of certain elements of Compensation.
 - (1)

Severance Payments. A Participant may elect to defer Severance Payments (or a portion thereof), to the extent permitted by the Committee. In order to defer Severance Payments (or a portion thereof), an eligible Participant must file the appropriate Deferral Election Form no later than the election date required under Section 409A of the Code and the Treasury Regulations thereunder. The Participant's election to defer Severance Payments (or a portion thereof) shall satisfy the requirements of Treasury Regulation Section 1.409A-2(b). Such deferral election shall be irrevocable when made, and shall not take effect until at least twelve (12) months after the date on which the election is made. Such deferral election shall provide that the amount deferred shall be deferred for a period of not less than five (5) years from the date the payment of the amount deferred would otherwise have been made (or, in the case of a life annuity or installment payments treated as a single payment, five years from the date the first amount was scheduled to be paid), in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).

(2) **Restricted Stock Units.** A Participant may elect to defer Restricted Stock Units (or a portion thereof), to the extent permitted by the Committee. In order to defer Restricted Stock Units (or a portion thereof), an eligible Participant must file the appropriate Deferral Election Form no later than the election date required under Section 409A of the Code and the Treasury Regulations thereunder. The Participant's election to defer Restricted Stock Units (or a portion thereof) shall apply only if the Restricted Stock Units (or portion thereof) constitute a legally binding right to a payment of compensation in a subsequent taxable year and, absent a deferral election, would be treated as a short-term deferral, within the meaning of Treasury Regulation Section 1.409A-1(b)(4), and such deferral election shall satisfy the requirements of Treasury Regulation Section 1.409A-2(a)(4). Such deferral election shall be irrevocable when made and shall be in accordance with Treasury Regulation Section 1.409A-2(b), applied as if the amount were a deferral of compensation and the scheduled payment date for the amount were the date the substantial risk of forfeiture lapses. Such deferral election shall become effective only if made at least twelve (12) months before the date on which the substantial risk of forfeiture, within the meaning of Treasury Regulation Section 1.409A-1(d), with respect to the Restricted Stock Units (or portion thereof) lapses. Such deferral election shall provide that the amount deferred shall be deferred for a period of not less than five (5) years from the date on which the substantial risk of forfeiture, within the meaning of Treasury Regulation Section 1.409A-1(b)(4), lapses, in accordance with Treasury Regulation Sections 1.409A-2(a)(4) and 1.409A-2(b)(1)(ii); provided, however, that such deferral election may provide that the deferred amounts will be payable upon a change in control event (as defined in Treasury Regulation Section 1.409A-3(i)(5)) without regard to the five year additional deferral requirement in Treasury Regulation Section 1.409A-2(b)(1)(ii).

(3) **SERP Lump Sum.** A Participant may elect to defer a SERP Lump Sum (or a portion thereof), to the extent permitted by the Committee. In order to defer a SERP Lump Sum (or a portion thereof), an eligible Participant must file the appropriate Deferral Election Form no later than the election date required under Section 409A of the Code and the Treasury Regulations thereunder. The Participant's election to defer SERP Lump Sum Payments (or a portion thereof) shall satisfy the requirements of Treasury Regulation Section 1.409A-2(b). Such deferral election shall be irrevocable when made, and shall not take effect until at least twelve (12) months after the date on which the election is made. Such deferral election shall provide that the amount deferred shall be deferred for a period of not less than five (5) years from the date the payment of the amount deferred would otherwise have been made (or, in the case of a life annuity or installment payments treated as a single payment, five years from the date the first amount was scheduled to be paid) in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).

(4) **Limitation on Deferrals.** A Participant may elect to defer Severance Payments, Restricted Stock Units or a SERP Lump Sum, or any portion thereof, only to the extent such deferral satisfies the requirements of Section 409A of the Code and the Treasury Regulations thereunder. For purposes of this subsection (b), payment shall have the meaning set forth in Treasury Regulation Section 1.409A-2(b) to the extent applicable.

(5) **Special SERP Lump Sum Deferral Elections.** Notwithstanding paragraphs (3) and (4), a Participant may elect to defer a SERP Lump Sum (or a portion thereof), to the extent permitted by the Committee, in accordance with this paragraph (5). Such deferral election shall be irrevocable when made and shall be made on or after January 1, 2006 and on or before December 31, 2008 in accordance with the transitional relief under Section 409A of the Code and Internal Revenue Service Notices 2006-79 and 2007-86; provided, however, that a Participant's deferral election made in 2006 shall apply only with respect to a SERP Lump Sum that would not otherwise be payable in 2006, and shall not cause a SERP Lump Sum to be made in 2006 that would not otherwise be payable in 2006; and, provided, further, that a Participant's deferral election made in 2007 shall apply only with respect to a SERP Lump Sum that would not otherwise be payable in 2007, and shall not cause a SERP Lump Sum to be made in 2007 that would not otherwise be payable in 2007; and, provided, further, that a Participant's deferral election made in 2008 shall apply only with respect to a SERP Lump Sum that would not otherwise be payable in 2008, and shall not cause a SERP Lump Sum to be made in 2008 that would not otherwise be payable in 2008. No election under this paragraph (5) may be made by a Participant after December 31, 2008.

(c) **Deferral Amounts.** The amount of Compensation which a Participant may elect to defer for a Plan Year is such Compensation earned on or after the time at which the Participant elects to defer each Plan Year in accordance with Section 3.1(a), and which is earned during such Plan Year. The applicable limitations for any Participant shall be determined based on his classification by the Committee, determined on the first day of the Election Period for such Plan Year.

(1) Each Participant who is a Manager shall be permitted to defer, in any whole percentage: (A) from 6% to 100% of Base Salary and (B) from 6% to 100% of his Bonus.

(2) Each Participant who is an Executive Officer shall be permitted to defer, in any whole percentage: (A) from 6% to 100% of Base Salary, (B) from 6% to 100% of his Bonus and (c) from 10% to 100% of his Restricted Stock Units, Severance Payments and SERP Lump Sum, subject to Section 3.1(b).

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

Notwithstanding the limitations established above, the total amount deferred by a Participant shall 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, determined on the first day of the Election Period for such Plan Year, as determined by the Committee. If permitted by the Committee, the Participant may make deferrals for a Plan Year with respect to any designated portion of his Compensation (such as meeting fees, for example), to the extent elected by such Participant during the Election Period for such Plan Year.

(d) **Duration of Deferral Election.**

(1) A Participant shall not modify or suspend his election to defer Compensation during a Plan Year.

(2) A Participant must file a new deferral election for each subsequent Plan Year. In the event a Participant fails to file a timely deferral election for the next Plan Year, he shall be deemed to have elected not to defer any Compensation for such Plan Year.

(3) 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.

(e) Elections. Subject to the limitations of subsection (b), any Eligible Individual who does not elect to defer Compensation during his Election Period for a Plan Year may subsequently become a Participant.

(f) 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 (1) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (2) prevent the Participant from making future deferral elections and/or (3) immediately distribute the balance of the Participant's Accounts and terminate the Participant's participation in the Plan.

3.2 Distribution Elections.

(a) General Rule. Each Participant shall make a separate distribution election with respect to each Plan Year for which such Participant elects to defer Compensation in accordance with Section 3.1. A Participant's distribution election with respect to a Plan Year shall apply to: (1) the subaccount in his Deferral Account to which shall be credited the amount equal to the portion of his Compensation earned during such Plan Year that he elects to defer pursuant to Section 3.1; and (2) the subaccount in his Company Matching Account to which shall be credited the amount equal to the Company Matching Contribution for such Plan Year. A Participant's distribution election with respect to a Plan Year shall elect the Payment Date and the form of distribution of his Distributable Amount with respect to such Plan Year for purposes of distributions under subsection 7.1(a) in the event of such Participant's Separation from Service or Disability. Such Payment Date and distribution form elections shall be made on such Participant's Deferral Election Form during the Election Period for which such Participant elects to defer Compensation under Section 3.1 for such Plan Year, and such Payment Date and distribution form elections with respect to such Plan Year shall be irrevocable, except as provided in subsection (b). A Participant may elect any Payment Date described in Section 1.2(gg), and may elect distribution in the normal form, as described in paragraph 7.1(a)(1), or an optional form described in subparagraphs 7.1(a)(2)(A), (B) or (C). In the event a Participant fails to elect a Payment Date for his Distributable Amount with respect to a Plan Year, his Payment Date for his Distributable Amount with respect to such Plan Year shall be the date described in Section 1.2(gg)(1). In the event a Participant fails to make a distribution form election for his Distributable Amount with respect to a Plan Year, his Distributable Amount with respect to such Plan Year shall be distributed in the normal form, as described in paragraph 7.1(a)(1) in the event of his Separation from Service or Disability, except as provided in subsection (b). Except as provided in subsection (b), a Participant's distribution for his Distributable Amount with respect to a Plan Year shall be made or commence on such Participant's Payment Date.

(b) Changes to Distribution Form Election. Subject to subsection (e), a Participant may change his distribution form election for his Distributable Amount with respect to a Plan Year in accordance with this subsection (b) as follows:

(1) Change from Lump Sum. If such Participant elected to receive the distribution of his Distributable Amount with respect to a Plan Year in the event of his Separation from Service or Disability in a lump sum, as provided in subparagraph 7.1(a)(2)(iii), such Participant may change such distribution form election by making a new distribution form election for his Distributable Amount with respect to such Plan Year providing for distribution in one of the following forms, with such distribution made or commencing on the fifth anniversary of his Payment Date:

- (A) a lump sum,
- (B) annual installments (calculated as set forth at Section 7.1(a)(6)) over five years,
- (C) annual installments (calculated as set forth at Section 7.1(a)(6)) over ten (10) years, or
- (D) annual installments (calculated as set forth at Section 7.1(a)(6)) over fifteen (15) years.

(2) Change from Installments. If such Participant elected to receive the distribution of his Distributable Amount with respect to a Plan Year in the event of his Separation from Service or Disability in the normal form, as described in paragraph 7.1(a)(1)(A) (annual installments over ten years), or an optional form, as provided in subparagraph 7.1(a)(2)(A) (annual installments over five years) or (B) (annual installments over fifteen years), such Participant may change such distribution form election by making a new distribution form election for his Distributable Amount with respect to such Plan Year providing for distribution in one of the following forms, with such distribution commencing on the fifth anniversary of his Payment Date:

(i) annual installments (calculated as set forth at Section 7.1(a)(6)) over the period of years specified in such Participant's initial distribution form election, or

(ii) annual installments (calculated as set forth at Section 7.1(a)(6)) over a period of either ten (10) years or fifteen (15) years, provided that such period exceeds the period of years specified in such Participant's initial distribution form election.

(3) A Participant may make only one change to his distribution form election with respect to a Plan Year under this subsection (b).

(c) Election of Scheduled Withdrawal Date. A Participant may elect a Scheduled Withdrawal Date with respect to his deferrals of Compensation (but excluding any investment earnings on such amounts) (the "Withdrawal Amount") with respect to a Plan Year. Such election of a Scheduled Withdrawal Date for such Participant's Withdrawal Amount with respect to a Plan Year shall be made by such Participant during the Election Period for which such Participant elects to defer Compensation under Section 3.1 for such Plan Year, and such election of a Scheduled Withdrawal Date shall be irrevocable, except as provided in subsection (d). A Participant may make separate Scheduled Withdrawal Date elections for his deferrals of Compensation (excluding any investment earnings on such amounts) with respect to different Plan Years. A Participant's Withdrawal Amount with respect to a Plan Year shall be credited to subaccounts under such Participant's Accounts for such Plan Year. A Participant shall not be required to elect a Scheduled Withdrawal Date with respect to his deferrals of Compensation for a Plan Year and, if a Participant fails to make an election of a Scheduled Withdrawal Date for a Plan Year, no Scheduled Withdrawal Date shall apply with respect to his deferrals of Compensation for such Plan Year.

(d) Change of Scheduled Withdrawal Date. Subject to subsection (e), if a Participant elected a Scheduled Withdrawal Date with respect to his deferrals of Compensation (excluding any investment earnings on such amounts) with respect to a Plan Year, such Participant may change

such Scheduled Withdrawal Date for the Withdrawal Amount with respect to such Plan Year by electing a new Scheduled Withdrawal Date for the Withdrawal Amount with respect to such Plan Year that is not less than five years later than the Scheduled Withdrawal Date previously elected by such Participant for such Plan Year. A Participant who has not elected a Scheduled Withdrawal Date for his deferrals of Compensation (excluding any investment earnings on such amounts) for a Plan Year may not subsequently elect a Scheduled Withdrawal Date for his deferrals of Compensation (excluding any investment earnings on such amounts) for such Plan Year. A Participant may make only one change to the Scheduled Withdrawal Date with respect to each Plan Year under this subsection (d).

(e) Limitation on Distribution Changes. A Participant's election to change to his distribution form election with respect to a Plan Year under subsection (b), or change of a Scheduled Withdrawal Date with respect to a Plan Year under subsection (d), shall be subject to the following limitations:

(1) The Participant's election to change his distribution election form with respect to a Plan Year, or change his Scheduled Withdrawal Date with respect to a Plan Year, shall not take effect until at least twelve (12) months after his election to change the distribution form election, or Scheduled Withdrawal Date, is made. If the distribution of such Participant's Distributable Amount with respect to a Plan Year (in the case of a change in his distribution election form), or the distribution of the Withdrawal Amount with respect to such Plan Year (in the case of a change in his Scheduled Withdrawal Date), is made or commence before the election to change his distribution form election or Scheduled Withdrawal Date, as the case may be, becomes effective, the election to change his distribution form election or Scheduled Withdrawal Date shall not thereafter become effective, and distributions shall be made in accordance with the distribution form election, and Scheduled Withdrawal Date (if any), as applicable, in effect prior to the Participant's election to change.

(2) The Participant's election to change his distribution election form with respect to a Plan Year, or change his Scheduled Withdrawal Date with respect to a Plan Year, shall provide that each payment with respect to such new distribution form election, or new Scheduled Withdrawal Date, shall be deferred for a period of not less than five years from the date such payment would otherwise have been made.

(3) The Participant's election to change his Scheduled Withdrawal Date with respect to a Plan Year shall not be made less than twelve (12) months prior to the date of the first scheduled payment under the Participant's initial election of the Scheduled Withdrawal Date with respect to such Plan Year.

The limitations under this subsection (e) shall be applied in accordance with Section 409A(a)(4)(C) of the Code and the Treasury Regulations thereunder.

(f) Special Distribution Changes. Notwithstanding the limitations under subsections (b), (d) and (e), a Participant may (1) elect to change his distribution form election with respect to a Plan Year, (2) elect to change his Scheduled Withdrawal Date with respect to a Plan Year, or (3) elect a Scheduled Withdrawal Date with respect to a Plan Year (if the Participant has not previously made a Scheduled Withdrawal Date with respect to such Plan Year under subsection (c)). Such election shall be irrevocable when made and shall be made on or after January 1, 2006 and on or before December 31, 2008 in accordance with the transitional relief under Section 409A of the Code and Internal Revenue Service Notices 2006-79 and 2007-86; provided, however, that a Participant's election made in 2006 shall apply only with respect to payments that would not otherwise be payable in 2006, and shall not cause payments to be made in 2006 that would not otherwise be payable in 2006; and, provided, further, that a Participant's election made in 2007 shall apply only with respect to payments that would not otherwise be payable in 2007, and shall not cause payments to be made in 2007 that would not otherwise be payable in 2007; and, provided, further, that a Participant's election made in 2008 shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. No election under this subsection (f) may be made by a Participant after December 31, 2008.

3.3 Company Matching Contributions

(a) The Company shall make a Company Matching Contribution for a Plan Year, on behalf of each Participant who is selected by the Company prior to the first day of such Plan Year and makes deferrals of Base Salary and Bonus 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: (I) 6% of the Participant's compensation (as defined in the 401(k) Plan) for the Plan Year, and (II) the Participant's deferrals of Base Salary and Bonus under the Plan for the Plan Year, to the extent such sum does not exceed 6% of such Participant's Base Salary and Bonus for such Plan Year, less

(2) 3% of such Participant's compensation (as defined in the 401(k) Plan) for the Plan Year.

Notwithstanding the above, the Company reserves the right to change the Company Matching Contribution in its sole discretion for any subsequent Plan Year.

(b) The Company Matching Contribution for a Plan Year shall be credited to a Participant's Company Matching Account in the manner determined by the Committee prior to the first day of such Plan Year.

3.4 FICA and Other Taxes.

(a) 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, to the extent permitted under Section 409A of the Code and the Treasury Regulations thereunder.

(b) Company Matching Amounts. For each Plan Year in which a Participant is credited with a contribution to his 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, to the extent permitted under Section 409A of the Code and the Treasury Regulations thereunder.

ARTICLE IV. INVESTMENTS

4.1 Measurement Funds.

- (a) 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. &nb sp;
- (b) 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 behalf by the Company. The Participant shall at all times remain an unsecured creditor of the Company.

4.2 Investment Elections.

(a) Executive Officers and Director Participants.

(1) Deferral 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 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 (II) the existing balances of their Deferral 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. The Company Matching Contributions credited to a Participant's Company Matching Account, and the deferrals of a Participant's Restricted Stock Units and Stock Option Gains credited to such Participant's Deferral Account shall be initially deemed invested in the Sempra Energy Stock Fund. A Participant may direct the investment of the balance of his Company Matching Account or the Restricted Stock Unit and the Stock Option Gain subaccounts of the Deferral Account into any other Measurement Fund, as permitted by the Committee.

(a) Manager Participants.

(1) 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.

(2) Company Matching Account. The Company Matching Contributions credited to a Participant's Company Matching Account shall be initially deemed invested in the Sempra Energy Stock Fund. A Participant may direct the investment of the balance of his Company Matching Account into any other Measurement Fund, as permitted by the Committee.

- (b) Continuing Investment Elections. Participants who have had a Retirement or 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 Compliance with Section 16 of the Exchange Act.

- (a) 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 Account or his future deferrals (pursuant to Section 3.1) 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.
- (b) 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.

5.1 Accounts.

- (a) The Committee shall establish and maintain a Deferral Account, and a Company Matching Account for each Participant under the Plan. Each Participant's Accounts shall be divided into separate subaccounts in accordance with Section 5.2. Each such subaccount shall be further divided into separate 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.
- (b) 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 for a Plan Year shall be credited to his Company Matching Account for purposes of this Section, in the manner determined on the first day of the Election Period for such Plan Year, as determined by the Committee.

5.2 Subaccounts.

- (a) The Committee shall establish and maintain, with respect to a Participant's Deferral Account, a subaccount with respect to each Plan Year, to which shall be credited the amount equal to the portion of the Participant's Compensation earned during such Plan Year that he elects to defer pursuant to Section 3.1, debited by amounts equal to distributions to and withdrawals made by the Participant and/or his Beneficiary and adjusted for investment earnings and losses pursuant to Article V.
- (b) The Committee shall establish and maintain, with respect to a Participant's Company Matching Account, a subaccount with respect to each Plan Year, to which shall be credited the amount equal to the Company Matching Contributions made pursuant to Section 3.3 on behalf of such Participant in respect of such Participant's Compensation earned during such Plan Year that he elects to defer pursuant to Section 3.1, debited by amounts equal to distributions to and withdrawals made by the Participant and/or his Beneficiary and adjusted for investment earnings and losses pursuant to Article V.

ARTICLE VI. VESTING

Each Participant shall be 100% vested in his Deferral Account and his Matching Account at all times.

ARTICLE VII. DISTRIBUTIONS

7.1 Distribution of Accounts.

- (a) Distribution at Separation from Service or Disability.
 - (1) Normal Form.

(A) Except as provided in subparagraph (B), paragraph (2), paragraph (3) or Section 7.3, upon the Separation from Service or Disability of a Participant, a Participant's Distributable Amount with respect to each Plan Year shall be paid to the Participant in substantially equal annual installments in cash (calculated as set forth in paragraph 7.1(a)(6)) over ten (10) years beginning on the Participant's Payment Date.

(B) Upon the Separation from Service of a Participant who is a Specified Employee (determined as of the date of Separation from Service), the distribution of the Participant's Distributable Amount with respect each Plan Year shall not be made before the date which is six months after the date of such Participant's Separation from Service (or, if earlier, the date of such Participant's death) in accordance with Section 409A(a)(2)(B)(i) of the Code and the Treasury Regulations thereunder.

(2) Optional Forms. Instead of receiving his Distributable Amount with respect to each Plan Year as described at Section 7.1(a)(1)(A), the Participant may elect in accordance with Section 3.2 one of the following optional forms of payment (on the form provided by Company) at the time of his deferral election for such Plan Year:

- (i) equal annual installments in cash (calculated as set forth in paragraph 7.1(a)(6)) over five years beginning on the Participant's Payment Date,
- (ii) equal annual installments in cash (calculated as set forth in paragraph 7.1(a)(6)) over fifteen (15) years beginning on the Participant's Payment Date, or
- (iii) a lump sum in cash.

The payment of such Participant's Distributable Amount with respect each Plan Year shall be made or commence on such Participant's Payment Date (or, if applicable, the date determined under subparagraph (a)(1)(B)).

(3) Distribution Election Changes. In the event that a Participant changes his distribution form election with respect to a Plan Year in accordance with Section 3.2(b), and such new distribution form election becomes effective, upon the Separation from Service or Disability of such Participant, the Distributable Amount with respect to such Plan Year shall be paid to the Participant in accordance with such new distribution form election.

(4) Small Accounts. Notwithstanding provision to the contrary, in the event the total of a Participant's Distributable Amounts with respect to all Plan Years is equal to or less than \$25,000, such Distributable Amounts shall be distributed to the Participant (or his Beneficiary, as applicable) in a lump sum.

(5) 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.

(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 subaccounts in the Participant's Accounts with respect to a Plan Year 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 for the distribution of the subaccounts in his Accounts with respect to a Plan Year, the first payment shall be 1/10 of the balance of such subaccounts in his Accounts calculated as described in this definition. The following year, the payment shall be 1/9 of such subaccounts in 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.

(b) 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 deferrals of Compensation (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 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.

(3) A Participant may elect to change the Scheduled Withdrawal Date for the Withdrawal Amount for any Plan Year in accordance with Section 3.2(d).

(4) In the event of Participant's Separation from Service or Disability prior to a Scheduled Withdrawal Date, the Participant's entire Withdrawal Amount shall be paid in accordance with the Participant's election with respect to such Plan Year 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 Participant's death in a lump sum in cash.

(c) 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.

7.2 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:

(a) 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.

(b) The Committee shall have made a determination that the requested distribution constitutes a Hardship Distribution in accordance with subsection (d).

(c) The amount determined by the Committee as a Hardship Distribution shall be paid in a single lump sum in cash as soon as practicable after the end of the calendar month in which the Hardship Distribution election is made and approved by the Committee. The Hardship Distribution shall be distributed proportionately from the subaccounts in the Participant's Accounts.

(d) If a Participant receives a Hardship Distribution, the Participant shall be ineligible to contribute deferrals to the Plan for the following Plan Year. "Hardship Distribution" shall mean a severe financial hardship to the Participant resulting from (i) an illness or accident of the Participant, the Participant's spouse or of his 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, as determined by the Committee in accordance with Section 409A(a)(2)(B)(ii)(I) of the Code and the Treasury Regulations thereunder. The amount of the Hardship Distribution with respect to a severe financial hardship shall not exceed the amounts necessary to satisfy such hardship, plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship), as determined by the Committee in accordance with Section 409A(a)(2)(B)(ii)(II) of the Code and the Treasury Regulations thereunder.

7.3 Effect of a Change in Control.

(a) 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, shall provide for the immediate distributions of the accounts under the Plan in lump sum payments and cash.

(b) 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.

- (c) 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.

7.4 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.

7.5 Prohibition on Acceleration of Distributions.

The time or schedule of payment of any withdrawal or distribution under the Plan shall not be subject to acceleration, except as provided under Treasury Regulations promulgated in accordance with Section 409A(a)(3) of the Code.

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.

- (a) 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.

- (a) The members of the Committee shall serve without compensation for their services hereunder.
- (b) 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.
- (c) 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.

(a) Claim.

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

(b) 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 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).

(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 of 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 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 shall be barred and estopped from challenging the Administrator's termination.

(d) 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.

8.10 Compliance with Section 409A of the Code

The Plan shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder.

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.

(a)

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.

- (b) 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.

(a) Subject to Section 7.3, 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 shall continue to be made in accordance with the terms of the Plan.

(b) Notwithstanding anything to the contrary in the Plan, if and to the extent the Company shall determine that the terms of the Plan may result in the failure of the Plan, or amounts deferred by or for any Participant under the Plan, to comply with the requirements of Section 409A of the Code, or any applicable regulations or guidance promulgated by the Secretary of the Treasury in connection therewith, the Company shall have authority to take such action to amend, modify, cancel or terminate the Plan or distribute any or all of the amounts deferred by or for a Participant, as it deems necessary or advisable, including without limitation:

(1) Any amendment or modification of the Plan to conform the Plan to the requirements of Section 409A of the Code or any regulations or other guidance thereunder (including, without limitation, any amendment or modification of the terms of any applicable to any Participant's Accounts regarding the timing or form of payment).

(2) Any cancellation or termination of any unvested interest in a Participant's Accounts without any payment to the Participant.

(3) Any cancellation or termination of any vested interest in any Participant's Accounts, with immediate payment to the Participant of the amount otherwise payable to such Participant.

Any such amendment, modification, cancellation, or termination of the Plan may adversely affect the rights of a Participant without the Participant's consent.

9.5 Designation of Beneficiary.

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(a) 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.

(b) 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 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 prior to the payment date specified under the Plan.

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 Section 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) commencing on the January 1 following the Plan Year in which such Participant's Separation from Service, Disability or death occurs, or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, this Section 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.

ARTICLE X.

EMPLOYEES OF SEMPRA ENERGY TRADING CORPORATION AND SEMPRA ENERGY SOLUTIONS LLC

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

(a) Background. Certain SET and SES employees are Participants in this Plan.

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

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

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

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

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

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

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

(b) Separation from Service

(1) Effective as of the Closing, RBS Sempra Commodities will be a member of a group of trades or businesses (whether or not incorporated) under common control for purposes of Section 414(c) of the Code and Treasury Regulation Section 1.414(c)-2, as determined under Treasury Regulation Section 1.409A-1(h)(3), that includes Sempra Energy and its wholly-owned subsidiaries. Consequently, effective as of the Closing, RBS Sempra Commodities will be included in the “service recipient” that includes Sempra Energy and its wholly-owned subsidiaries, as defined under Treasury Regulation Section 1.409A-1(h)(3).

(2) A Participant who is an employee of SET LLC or SES, and who is a Transferred Employee effective as of the Closing Date, will not have a Separation from Service solely as a result of the purchase of the membership interests of SET LLC by RBS Sempra Commodities effective as of the Closing.

(3) A Participant who is an employee of SET LLC or SES, who is an Inactive Employee, and who becomes a Transferred Employee effective on a Transfer Date after the Closing Date, will not have a Separation from Service solely as a result of the purchase of the membership interests of SET LLC by RBS Sempra Commodities or becoming a Transferred Employee on a Transfer Date after the Closing Date.

(4) For purposes of the Plan, a participant in the Plan who is an employee of SET LLC or SES, and who is or becomes a Transferred Employee, will have a Separation from Service on or after the Closing Date (or the Transfer Date, if applicable), as determined under Section 1.2(pp) and Treasury Regulation Section 1.409A-1(h).

(c) Certain Defined Terms.

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

ARTICLE XI.

SECTION 409A OF THE CODE

This Plan shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (subject to the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79, Internal Revenue Service Notice 2007-86 and other applicable authority issued by the Internal Revenue Service).

Executed at San Diego, California this 11th day of December, 2008.

SEMPRA ENERGY

By: _____
G. Joyce Rowland
Sr. Vice President, Human Resources

Date: _____

**AMENDMENT AND RESTATEMENT OF THE
SEMPRA ENERGY
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

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Appendix A

Appendix B

This Supplemental Executive Retirement Plan provides retirement income, disability income and death benefits to key executives and their spouses under specified circumstances.

Except as provided in Appendix B, and except as to key executives who retired before July 1, 1998, this Plan shall amend, restate and supercede the Prior Plan.

The Plan was amended and restated effective as of December 5, 2005.

Sempra Energy hereby amends and restates this Plan in its entirety effective as of December 31, 2008, except as otherwise provided herein. This amendment and restatement of the Plan is intended to comply with the requirements of Sections 409A(a)(2), (3) and (4) of the Code (as defined below) and the Treasury Regulations thereunder. The elections and amendments made in accordance with the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code and Internal Revenue Service Notices 2006-79 and 2007-86 shall be effective for the relevant periods on or before December 31, 2008.

SECTION 1

DEFINITIONS

- 1.1 “**Actuarial Equivalent**” means equivalent value when computed using the applicable mortality table promulgated by the IRS under Code Section 417(e)(3) as in effect on the first day of the Plan Year and the applicable interest rate promulgated by the IRS under Code Section 417(e)(3) for the November preceding the first day of the Plan Year.
- 1.2 “**Average Bonus**” means the average of the three highest annual incentive awards earned by a Participant under the Executive Incentive Plan during the Participant's last ten years of Service, determined as follows:
- (a) Annual incentive awards shall be counted whether or not deferred under the Deferred Compensation Plan.
 - (b) If a Participant was designated as a participant in the Executive Incentive Plan for a year, but earned no annual incentive award during that year, the award will be counted as zero, and if the Participant did not earn three annual incentive awards during the other years during the last ten years of Service, the zero amount will be used to attain the average of the three highest annual incentive awards.
 - (c) If the Participant was not designated as a participant in the Executive Incentive Plan for three full years of the last ten years of Service, the average shall be based on the number of full years the Participant was designated as a participant in the Executive Incentive Plan during the last ten years of Service.
 - (d) As to a Participant in the Executive Incentive Plan who did not earn annual incentive awards during the last ten years of Service solely due to a disability which qualified him for a Basic Disability Plan Benefit, a Supplemental Disability Benefit or both, the applicable ten year period will be extended backwards for each year of such occurrence.
 - (e) Prorated annual incentive awards earned under the Executive Incentive Plan will not be used in determining the average.
- 1.3 “**Average Earnings**” means the average Earnings of the highest two years of Service in the last ten years while a Participant was not receiving a Basic Disability Plan Benefit, a Supplemental Disability Benefit or both.
- 1.4 “**Basic Disability Plan**” means a disability plan maintained by Sempra Energy or a subsidiary which provides coverage for most full time employees of the plan sponsor.
- 1.5 “**Basic Disability Plan Benefit**” means the annual amount of benefit payable from the Basic Disability Plan to a Participant.
- 1.6 “**Basic Pension Plan**” means the Sempra Energy Cash Balance Plan, and where applicable by the context, the pension plan of a subsidiary of Sempra Energy.
- 1.7 “**Basic Pension Plan Benefit**” means the annual amount of benefit payable from the Basic Pension Plan to a Participant on his Retirement Date in the form of a straight life annuity without a cost-of-living feature unless one is provided under the Basic Pension Plan.
- 1.8 “**Cash Balance Restoration Plan**” means the Sempra Energy Cash Balance Restoration Plan, or any other supplemental pension plan of any Employer providing essentially the same benefits for one or more Participants.
- 1.9 “**Cash Balance Restoration Plan Benefit**” means the annual amount of benefit payable from the Cash Balance Restoration Plan to a Participant on his Retirement Date or the date of his Separation from Service, as applicable, in the form of a straight life annuity without a cost-of-living adjustment feature unless one is provided under the Cash Balance Restoration Plan, or the annual amount of benefit that would have been payable from the Cash Balance Restoration Plan to a Participant on his Retirement Date or the date of his Separation from Service, as applicable, at such time and in such form, if the Cash Balance Restoration Plan provided for such time and form of payment to the Participant.
- 1.10 “**Committee**” means the Compensation Committee of the Company's Board of Directors.
- 1.11 “**Company**” means Sempra Energy.
- 1.12 “**Deferred Compensation Plan**” means the Sempra Energy 2005 Deferred Compensation Plan (with respect to deferrals of compensation earned on or after January 1, 2005), and the Sempra Energy Deferred Compensation & Excess Savings Plan (with respect to deferrals of compensation earned on or before December 31, 2004).
- 1.13 “**Earnings**” means base compensation only including any deferral under the Sempra Energy Savings Plan and the Deferred Compensation Plan.

- 1.14 “**Employer**” means the Company and any of its subsidiaries (any corporation of which 50% or more of the issued and outstanding stock having ordinary voting rights is owned directly or indirectly by the Company or any other business entity or association of which 50% or more of the outstanding equity interest is so owned) which adopt this Plan.
- 1.15 “**Employment**” means employment by the Employer, including the period during which a Participant is receiving a Basic Disability Plan Benefit, and any additional period during which a Participant is receiving a Supplemental Disability Benefit under this Plan.
- 1.16 “**Executive Incentive Plan**” means the Sempra Energy Executive Incentive Plan, or such other Plan or Plans as may be designated by the Committee from time to time.
- 1.17 “**Participant**” means an employee of the Employer designated to participate in this Plan as specified in Section 2.1.
- 1.18 “**Plan**” means this Supplemental Executive Retirement Plan.
- 1.19 “**Pre-Section 409A Supplemental Retirement Benefit**” means the portion of a Participant’s Supplemental Retirement Benefit, if any, to which the Participant had a legally binding right, and which was earned and vested, as of December 31, 2004, determined in accordance with Section 409A of the Internal Revenue Code and Treasury Regulation Section 1.409A-6. Such Participant’s “Pre-Section 409A Supplemental Retirement Benefit” shall be determined by the terms of the Plan, the Cash Balance Restoration Plan and the Basic Pension Plan, as in effect as of October 3, 2004.

Such Participant’s “**Pre-Section 409A Supplemental Retirement Benefit**” shall equal the present value of the amount to which such Participant would have been entitled under the Plan if such Participant voluntarily terminated services without cause on December 31, 2004, and received a payment of the benefits available from the Plan on the earliest possible date allowed under the Plan to receive a payment of benefits following the termination of services, and received the benefits in the form with maximum value. Notwithstanding the foregoing, for any subsequent taxable year of such Participant, the “**Pre-Section 409A Supplemental Retirement Benefit**” shall increase to equal the present value of the benefit such Participant actually becomes entitled to, in the form and at the time actually paid, determined under the terms of the Plan (including applicable limits under the Code), as in effect on October 3, 2004, without regard to any further services rendered by such Participant after December 31, 2004, or any other events affecting the amount of or the entitlement to benefits (other than such Participant’s election with respect to the time or form of an available benefit). Such present value shall be computed using the applicable actuarial assumptions and methods under the Basic Plan to the extent in accordance with Treasury Regulation Section 1.409A-6(a)(3)(i), or such other reasonable actuarial assumptions and methods as are permitted under Treasury Regulation Section 1.409A-6(a)(3)(i).

- 1.20 “**Preretirement Spouse’s Benefit**” means the benefit payable or paid under the Basic Pension Plan and Cash Balance Restoration Plan to a Surviving Spouse of a Participant who dies prior to Separation from Service.
- 1.21 “**Post-Section 409A Supplemental Retirement Benefit**” means a Participant’s Supplemental Retirement Benefit, less such Participant’s Pre-Section 409A Supplemental Retirement Benefit (if any).
- 1.22 “**Prior Plan**” shall mean the Pacific Enterprises Supplemental Retirement and Survivor Plan and the San Diego Gas and Electric Supplemental Executive Retirement Plan.
- 1.23 “**Retirement**” means the termination of such Participant’s Employment with the Employer after five years of Service on or after the Participant attains age 55.
- 1.24 “**Retirement Date**” means the first day of the month following a Participant’s Retirement.
- 1.25 “**Separation from Service**” with respect to a Participant (or another Service Provider) means the Participant’s (or such Service Provider’s) “separation from service,” as defined in Treasury Regulation Section 1.409A-1(h).
- 1.26 “**Service**” means a Participant’s credited service which would be used to compute retirement benefits under the Basic Pension Plan.
- 1.27 “**Service Provider**” means a Participant or any other “service provider,” as defined in Treasury Regulation Section 1.409A-1(f).
- 1.28 “**Service Recipient,**” with respect to a Participant, means the Company and all persons considered part of the “service recipient,” as defined in Treasury Regulation Section 1.409A-1(g), as determined from time to time. As provided in Treasury Regulation Section 1.409A-1(g), the “Service Recipient” shall mean the person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Section 414(b) or 414(c) of the Code.
- 1.29 “**Social Security Benefit**” means the annual Primary Insurance Amount estimated to be payable to the Participant at age 65 under the Federal Social Security Act in effect at the time of the event.
- 1.30 “**Specified Employee**” means a Service Provider who, as of the date of the Service Provider’s Separation from Service, is a “Key Employee” of the Service Recipient any stock of which is publicly traded on an established securities market or otherwise. For purposes of this definition, a Service Provider is a “Key Employee” if the Service Provider meets the requirements of Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the Treasury Regulations thereunder and disregarding Section 416(i)(5) of the Code) at any time during the Testing Year. If a Service Provider is a “Key Employee” (as defined above) as of a Specified Employee Identification Date, the Service Provider shall be treated as “Key Employee” for the entire twelve (12) month period beginning on the Specified Employee Effective Date. For purposes of this definition, a Service Provider’s compensation for a Testing Year shall mean such Service Provider’s compensation, as determined under Treasury Regulation Section 1.415(c)-2(a) (and applied as if the Service Recipient were not using any safe harbor provided in Treasury Regulation Section 1.415(c)-2(d), were not using any of the elective special timing rules provided in Treasury Regulation Section 1.415(c)-2(e), and were not using any of the elective special rules provided in Treasury Regulation Section 1.415(c)-2(g)), from the Service Recipient for such Testing Year. The “**Specified Employees**” shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation Section 1.409A-1(i).
- 1.31 “**Specified Employee Effective Date**” means the first day of the fourth month following the Specified Employee Identification Date. The Specified Employee Effective Date may be changed by the Company, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(4).

- 1.32 “**Specified Employee Identification Date**”, for purposes of Treasury Regulation Section 1.409A-1(i)(3), means December 31. The “**Specified Employee Identification Date**” shall apply to all “nonqualified deferred compensation plans” (as defined in Treasury Regulation Section 1.409A-1(a)) of the Service Recipient and all affected Service Providers. The “**Specified Employee Identification Date**” may be changed by Sempra Energy, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(3).
- 1.33 “**Spouse’s Death Benefit**” means the benefit payable to the Surviving Spouse of a Participant under Section 4 of this Plan.
- 1.34 “**Spouse’s Supplemental Retirement Benefit**” means the benefit payable to the Surviving Spouse of a Participant under Section 2.3 of this Plan after the Participant has died on or after his Retirement Date.
- 1.35 “**Supplemental Disability Benefit**” means the benefit payable to a disabled Participant under Section 2.5 of this Plan.
- 1.36 “**Supplemental Retirement Benefit**” means the benefit payable to a Participant under Section 2.2 of this Plan on his Retirement Date. A Participant’s Supplemental Retirement Benefit shall be comprised of such Participant’s Pre-Section 409A Supplemental Retirement Benefit (if any) and such Participant’s Post-Section 409A Supplemental Retirement Benefit (if any).
- 1.37 “**Surviving Spouse**” means in the case of a Spouse’s Death Benefit, a spouse married to the Participant for at least the one-year period ending on the Participant’s date of death, and means in the case of a Spouse’s Supplemental Retirement Benefit, a spouse who is married to the Participant for at least the one-year period ending on the Participant’s Retirement Date and who is still married to the Participant on the date of the Participant’s death. Surviving Spouse also means a Spousal Equivalent as defined by the Company (subject to the one-year requirements) under the Company Medical Plan.
- 1.38 “**Testing Year**” means the twelve (12) month period ending on the Specified Employee Identification Date, as determined from time to time.
- 1.39 “**Vesting Factor**” means the following for a Participant who qualifies for Retirement under paragraph 1.23.

Vesting Schedule

		AGE					
		55	56	57	58	59	60 or older
YEARS OF SERVICE	5	50%	60%	70%	80%	90%	100%
	6	55%	60%	70%	80%	90%	100%
	7	60%	65%	70%	80%	90%	100%
	8	65%	70%	75%	80%	90%	100%
	9	70%	75%	80%	85%	90%	100%
	10	75%	80%	85%	90%	95%	100%
	11	80%	85%	90%	95%	100%	100%
	12	85%	90%	95%	100%	100%	100%
	13	90%	95%	100%	100%	100%	100%
	14	95%	100%	100%	100%	100%	100%
	15 or more	100%	100%	100%	100%	100%	100%

Based on attained age and completed years of service.

- 1.40 “**Voluntary Disability Insurance Program**” means the program offered by Sempra Energy under which certain employees of Sempra Energy or a subsidiary may purchase supplemental long term disability insurance coverage, such supplemental coverage shall be voluntary and the cost of such coverage shall be paid by the employee.
- 1.41 “**Voluntary Disability Benefit**” means the annual amount of benefit payable from the supplemental long term disability insurance coverage (if any) purchased by a Participant under the Voluntary Disability Insurance Program and maintained by such Participant.

The masculine pronoun whenever used shall include the feminine pronoun, and the singular shall include the plural where the context requires it.

SECTION 2

ELIGIBILITY FOR BENEFITS

2.1 Participation

Executive Officers of the Company as designated shall be eligible to participate in this Plan. The Committee may designate additional officers and key employees of the Employer who shall participate in this Plan and the effective date of such participation, subject to agreement by the Board of Directors of the executive’s Employer (if not the Company) that such executive participate and that such Employer pay the costs of this Plan for the executive and his Surviving Spouse.

2.2 Supplemental Retirement Benefit

Each Participant is eligible to retire and receive a benefit under this Plan as specified in Sections 3.1 and 3.4 beginning on his Retirement Date. No Supplemental Retirement Benefit will be paid to a Participant who leaves Employment prior to attaining age 55 or completing five years of Service, except as provided under other agreements.

2.3 Spouse’s Supplemental Retirement Benefit

The Surviving Spouse of a Participant who dies on or after his Retirement Date who did not receive a lump sum payment is eligible for a Spouse’s Supplemental Retirement Benefit in accordance with Sections 3.2 and 3.4.

2.4 Spouse’s Death Benefit

The Surviving Spouse of a Participant who dies in Employment is eligible for a Spouse's Death Benefit as specified in Sections 4.1 and 4.2 in the form of a lump sum benefit. There is no cost to the Participant for this benefit. If a Participant dies during Employment without an eligible Surviving Spouse, no Spouse's Death Benefit is payable under this Plan.

2.5 Supplemental Disability Benefit

A Participant who becomes disabled may be eligible to receive a Supplemental Disability Benefit as specified in Section 5.

SECTION 3

RETIREMENT BENEFITS

3.1 Amount of Supplemental Retirement Benefit

The Supplemental Retirement Benefit payable to a Participant shall be determined as of his Retirement Date and shall equal to (a) minus (b) with the resultant product multiplied by the Participant's Vesting Factor and then the resultant product multiplied by the early retirement reduction (pursuant to Appendix A) for Retirement Dates which precede attainment of 62 years of age.

- (a) is a lump sum using the actuarial and mortality assumptions in the Basic Pension Plan based upon the single annuity value of the annual annuity with the annual annuity determined as follows: the sum of the following percent of the total of the Participant's Average Earnings and Average Bonus
 - (i) 1/3% for each month of Service through 120 (40% for 10 years of Service), plus
 - (ii) 1/6% for each month of Service in excess of 120, through 240 (60% for 20 years of Service), plus
 - (iii) 1/48% for each month of Service in excess of 240 (65% for 40 years of Service).
- (b) is a lump sum using the actuarial and mortality assumptions in the Basic Pension Plan based on the single annuity value of the annual annuity with the annual annuity determined as the sum of his
 - (i) Basic Pension Plan Benefit, plus
 - (ii) Cash Balance Restoration Plan Benefit;

provided, however, that, if a Participant's Retirement Date occurs on a different date than the date the Participant commences receipt of benefits under the Basic Pension Plan, paragraph (i) shall be calculated based on the benefits the Participant would have received if the Participant had commenced receipt of benefits under the Basic Pension Plan on the Participant's Retirement Date.

If (a) minus (b) results in zero or less, then no Supplemental Retirement Benefit is payable.

- (c) The Participant's Pre-Section 409A Supplemental Retirement Benefit (if any) shall be payable as of such Participant's Retirement Date, and the Participant's Post-Section 409A Supplemental Retirement Benefit shall be payable upon such Participant's Separation from Service, in accordance with Section 3.4. Except as provided in paragraph (i) or (ii) below, the Participant's Supplemental Retirement Benefit shall be paid in a lump sum.
 - (i) (A) The Participant may elect to receive the Pre-Section 409A Supplemental Retirement Benefit, payable on his behalf, paid in an actuarially equivalent annuity, provided the Participant elects the annuity one year prior to Retirement. The initial election of benefit form shall be made at the time of commencement of participation, or as soon thereafter as is reasonably practicable.
 - (B) Notwithstanding the foregoing, in no event shall a distribution option be available or apply to a Participant's Pre-Section 409A Supplemental Retirement Benefit if such distribution option would result in a material modification of the Participant's Pre-Section 409A Supplemental Retirement Benefit, as determined under Section 409A of the Code and Treasury Regulation Section 1.409A-6.
- (ii) (A) The payment of the Participant's Post-Section 409A Supplemental Retirement Benefit shall be made or commence on the date of the payment or commencement of such Participant's "Post-Section 409A Benefit" (as defined in the Cash Balance Restoration Plan) under the Cash Balance Restoration Plan, and the form of payment of the Participant's Post-Section 409A Supplemental Retirement Benefit shall be the same as the form of payment of such Participant's "Post-Section 409A Benefit" under the Cash Balance Restoration Plan, as determined in subparagraph (B). In the event that the payment of the Participant's Post-Section 409A Supplemental Retirement Benefit is in the form of an annuity, such annuity shall be actuarially equivalent to the Participant's Post-Section 409A Supplemental Retirement Benefit.
- (B) The payment of such Participant's "Post-Section 409A Benefit" under the Cash Balance Restoration Plan shall be in a lump sum upon the Participant's Separation from Service, unless the Participant elects to receive an optional annuity form of payment under the Cash Balance Restoration Plan.
 - (I) In the case of a Participant who first became an "Eligible Employee" in the Cash Balance Restoration Plan on or before December 31, 2005, the Participant may elect, in writing, payment of such Participant's "Post-Section 409A Benefit" under the Cash Balance Restoration Plan commencing upon the Participant's Separation from Service under any of the following annuity options: (x) a straight life annuity, (y) a joint and 50% survivor annuity, and (z) a joint and 100% survivor annuity. The election will be subject to approval of the Company's Senior Human Resources Officer, in his or her discretion, and, if approved, will become effective and irrevocable on the date of such approval (except as provided in the Cash Balance Restoration Plan).

- (II) Such a Participant's election under the Cash Balance Restoration Plan may be made with respect to such Participant's "Post-Section 409A Benefit" on or after January 1, 2006 and on or before December 31, 2008 in accordance with the transitional relief under Section 409A of the Internal Revenue Code and Internal Revenue Service Notices 2006-79 and 2007-86; provided, however, that such Participant's election made in 2006 shall only apply with respect to payments that would not otherwise be payable in 2006, and shall not cause payments to be made in 2006 that would not otherwise be payable in 2006; and, provided, further, that such Participant's election made in 2007 shall apply only with respect to payments that would not otherwise be payable in 2007 and shall not cause payments to be made in 2007 that would not otherwise be payable in 2007; and, provide d, further, that such Participant's election made in 2008 shall apply only with respect to payments that would not otherwise be payable in 2008 and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. A Participant's election under this clause (II) shall be considered made when the election becomes irrevocable. No such payment election may be made by such Participant unless such election becomes irrevocable on or prior to December 31, 2008.
- (III) The joint and survivor annuity is only available under clause (I)(y) or (z) if the Participant designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Pension Plan as part of the Participant's election. If the spouse, or beneficiary dies before the Participant's Separation from Service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity; provided, that the straight life annuity is actuarially equivalent, applying reasonable actuarial methods and assumptions, to the joint and survivor annuity in effect prior to such cancellation, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
- (IV) Except as provided in subsection (C), such Participant may not change the form and time of payment of such Participant's "Post-Section 409A Benefit" under the Cash Balance Restoration Plan after December 31, 2008.
- (v) A lump sum payment of a Participant's Post-Section 409A Supplemental Retirement Benefit under this subparagraph (A) shall be paid on such date as is determined by Sempra Energy within thirty (30) days following the Participant's Separation from Service. If an annuity payment is elected, for purposes of the payment of such Participant's Post-Section 409A Supplemental Retirement Benefit under this subparagraph (A), such Post-Section 409A Supplemental Retirement Benefit shall be paid monthly, beginning on the last day of the month of the Participant's Separation from Service and will continue to be paid monthly during the life of the Participant and the life of the Participant's beneficiary, if any (if such beneficiary survives the Participant). In all cases, the monthly benefit shall equal the annual benefit divided by 12.
- (C) (I) In the event that such Participant elects to change the form of the payment of such Participant's "Post-Section 409A Benefit" (as defined in the Cash Balance Restoration Plan) under the Cash Balance Restoration Plan, such Participant shall be deemed to have elected to change the form of the payment of such Participant's Post-Section 409A Supplemental Retirement Benefit to the form of the payment of such Participant's "Post-Section 409A Benefit" under the Cash Balance Restoration Plan. The Participant's election shall be subject to clauses (II), (III), (IV), (V), (VI) and (VII). Except as provided in clauses (VI), the Participant's election under this clause (I) shall be irrevocable.
 - (II) The Participant's election under clause (I) must be made prior to the Participant's Separation from Service.
 - (III) If the Participant's form of payment, as in effect at the time of election under clause (I), is an annuity, such Participant's election of an alternative annuity form of payment shall be effective immediately and clause (V) shall not apply to such Participant's election; provided, that the alternative annuity form of payment elected by the Participant is actuarially equivalent applying reasonable actuarial methods and assumptions to the annuity form of payment, as in effect at the time of the election, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
 - (IV) Except as provided in clause (III), the Participant's election under clause (I) shall not take effect until 12 months after his election is made in accordance with Treasury Regulation Section 1.409A-2(b)(1)(i). If the Participant has a Separation from Service before the election under clause (I) becomes effective, the election under clause (I) shall terminate and the Participant's Post-Section 409A Supplemental Retirement Benefit shall be paid in the form of payment as in effect at the time of the election under clause (I).
 - (V) Except as provided in clause (III), in the event the Participant's election under clause (I) becomes effective, the payment of such Participant's Post-Section 409A Supplemental Retirement Benefit under the option shall be deferred for a period of five years from the date such payment would otherwise have been paid (or, in the case of a life annuity treated as a single payment, five years from the date the first amount was scheduled to be paid), in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).
 - (VI) In the event that the form of payment of such Participant's "Post-Section 409A Benefit" (as defined in the Cash Balance Restoration Plan) under the Cash Balance Restoration Plan is an annuity, and such Participant elects to change the form of payment of such Participant's "Post-Section 409A Benefit" to another annuity option, the Participant shall be deemed to have elected to change the annuity option elected under clause (I) to the annuity option of the payment of such Participant's "Post-Section 409A Benefit" and such election shall become effective immediately, provided, that such change is made prior to the commencement of the payment of such Participant's Post-Section 409A Supplemental Retirement Benefit under this Plan; and, provided, further, that the annuity form of payment is actuarially equivalent to the annuity form of p ayment, as in effect at the time of the election, as determined under Treasury Regulation Section 1.409A-2(b)(2)(ii).
 - (VII) Any change in a Participant's form of payment under this subparagraph (B) shall be made in accordance with Treasury Regulation Section 1.409A-2(b).

(d) **Conformance with Treasury Regulations**

The benefits payable under this Section 3.1 are determined as an amount offset by the benefits provided under the Basic Plan. The benefits payable under this Plan shall be determined in a manner consistent with Treasury Regulation Sections 1.409A-2(a)(9) and 1.409A-3(j)(5) (relating to nonqualified deferred compensation plans linked to qualified employer plans). Any amendment of the Basic Plan shall be taken into account under this Plan only to the extent permitted under Treasury Regulation Sections 1.409A-2(a)(9) and 1.409A-3(j)(5). Any reference to the interest and mortality factors (or actuarial methods and assumptions) specified in the Basic Plan shall mean the applicable interest and mortality factors (or actuarial methods or assumptions) specified under the terms of the Basic Plan as in effect on December 31, 2008.

3.2 Amount of Spouse's Supplemental Retirement Benefit

The annual Spouse's Supplemental Retirement Benefit payable to a Surviving Spouse of a Participant who did not receive a lump sum payment is equal to 50% of the Participant's Supplemental Retirement Benefit as determined in accordance with in Section 3.1(a) without the reduction in 3.1(b) but adjusted by the Vesting Factor and the early retirement reduction pursuant to appendix A. The Spouse's Supplemental Retirement Benefit shall be paid monthly, beginning on the last day of the month next following the month in which the death of the Participant occurs and will continue to be paid monthly during the life of the Surviving Spouse.

3.3 Adjustments

The annual Supplemental Retirement Benefit or the annual Spouse's Supplemental Retirement Benefit will not be decreased or increased on account of any increase or decrease in the Basic Pension Plan Benefit, Cash Balance Restoration Plan Benefit, or Social Security Benefit occurring after a Participant's Retirement Date or death.

3.4 Payment

- (a) Subject to subsections (b), (c) and (d), a Participant's Pre-Section 409A Supplemental Retirement Benefit will be paid as soon after the Participant's Retirement Date as is reasonably practicable, and a Participant's Post-Section 409A Supplemental Retirement Benefit will be paid or commence upon such Participant's Separation from Service (or such other commencement date as is determined under Section 3.1). If an annuity payment is elected pursuant to Section 3.1, for purposes of the payment of such Participant's Pre-Section 409A Supplemental Retirement Benefit, such Pre-Section 409A Supplemental Retirement Benefit will be paid monthly, beginning on the last day of the month of the Participant's Retirement Date and will continue to be paid monthly during the life of the Participant, the last payment to be made to the Participant's spouse or, if none, to the Participant's estate, on the last day of the month in which the death of the Participant occurs. If an annuity payment is elected pursuant to Section 3.1, for purposes of the payment of such Participant's Post-Section 409A Supplemental Retirement Benefit, such Post-Section 409A Supplemental Retirement Benefit will be paid monthly, beginning on the last day of the month of the Participant's Separation from Service (or such other commencement date as is determined under Section 3.1) and will continue to be paid monthly during the life of the Participant, the last payment to be made to the Participant's spouse or, if none, to the Participant's estate, on the last day of the month in which the death of the Participant occurs. If the Participant's designated beneficiary is the Participant's Surviving Spouse, the Surviving Spouse will receive the Spouse's Supplemental Retirement Benefit, which will be paid monthly, and will commence on the last day of the month following the month in which the Participant dies and will continue during the life of the Surviving Spouse. If the Participant's designated beneficiary is not the Participant's Surviving Spouse, and the designated beneficiary survives the Participant, the designated beneficiary will receive the survivor benefit under the annuity elected by the Participant, which will be paid monthly, and will commence on the last day of the month following the month in which the Participant dies and will continue during the life of the designated beneficiary. In all cases, the monthly benefit shall equal the annual benefit divided by 12.
- (b) A Participant's Pre-Section 409A Supplemental Retirement Benefit shall be paid in accordance with Section 3.1(c)(i) and a Participant's Post-Section 409A Supplemental Retirement Benefit shall be paid in accordance with Section 3.1(c)(ii).
- (c) Notwithstanding the foregoing, in the case of a Participant who is a Specified Employee on the date of such Participant's Separation from Service, the payment of such Participant's Post-Section 409A Supplemental Retirement Benefit to such Participant shall not be made before the date which is six months after the date of such Participant's Separation from Service (or, if earlier, the date such Participant's death) in accordance with Section 409A(a)(2)(B)(i) of the Code and the Treasury Regulations thereunder. Any payment of such Participant's Post-Section 409A Supplemental Retirement Benefit to which such Participant otherwise would have been entitled during the first six months following the date of such Participant's Separation from Service shall be accumulated (with interest at the annual rate of interest on 30-year Treasury securities for the November next preceding the first day of the calendar year in which such Participant's Separation from Service occurs) and paid on the first day of the seventh month following the date of such Participant's Separation from Service (or, if earlier, the date of such Participant's death) in accordance with Section 409A(a)(2)(B)(i) and the Treasury Regulations thereunder.
- (d) The time or schedule of payment of any payment of a Participant's Post-Section 409A Supplemental Retirement Benefit under the Plan shall not be subject to acceleration, except as provided under Treasury Regulations promulgated in accordance with Section 409A(a)(3) of the Code.

3.5 Conformance of Time and Form of Payment under the Cash Balance Restoration Plan

- (a) The payment of such Participant's Post-Section 409A Supplemental Retirement Benefit to such Participant under this Plan shall be made or commence on the date of the payment or commencement of such Participant's "Post-Section 409A Benefit" (as defined in the Cash Balance Restoration Plan) under the Cash Balance Restoration Plan, and the form of payment of such Participant's Post-Section 409A Supplemental Retirement Benefit under this Plan shall be the same as the form of payment of such Participant's "Post-Section 409A Benefit" under the Cash Balance Restoration Plan.
- (b) In the event that a Participant elects to change the form of the payment of such Participant's "Post-Section 409A Benefit" (as defined in the Cash Balance Restoration Plan) under the Cash Balance Restoration Plan, such Participant shall be deemed to have elected to change the form of the payment of such Participant's Post-Section 409A Supplemental Retirement Benefit under this Plan to the form of the payment of such Participant's "Post-Section 409A Benefit" under the Cash Balance Restoration Plan. Any such election shall be subject to Section 3.1(c)(ii)(C) and the provisions of the Cash Balance Restoration Plan and, in any event, the time and form of payment of such Participant's Post-Section 409A Supplemental Retirement Benefit under this Plan shall be the same as the time and form of payment of such Participant's "Post-Section 409A Benefit" under the Cash Balance Restoration Plan.

SECTION 4

SUPPLEMENTAL PRERETIREMENT SPOUSE'S DEATH BENEFITS

4.1 Benefit

The Spouse's Death Benefit that will be paid to a Surviving Spouse of a Participant who dies prior to having a Separation from Service prior to his Retirement Date is a lump sum payment based on the Actuarial Value of an annuity equal to (a) minus (b) when:

- (a) is 100% of the Participant's accrued benefit calculated in accordance with 3.1(a). If the Participant is under age 55 at the time of death, the age 55 early retirement factor shall be used, and
- (b) is the Surviving Spouse's Preretirement Spouse's Benefit.

4.2 Form of Benefit

The Spouse's Death Benefit shall be paid in the form of a lump sum payment on such date as is determined by Sempra Energy within thirty (30) days following the Participant's death.

SECTION 5

SUPPLEMENTAL DISABILITY BENEFITS

5.1 Amount

The annual Supplemental Disability Benefit payable to a Participant is equal to (a) minus (b) when (a) is 60% multiplied by the total of the Participant's Average Bonus and annual rate of Earnings in effect on the day immediately preceding the day the Participant becomes eligible, and (b) is the sum of

- (i) the Participant's Basic Disability Plan Benefit, and any other Company provided disability plan, plus
- (ii) the Participant's Voluntary Disability Benefit, plus
- (iii) the amount of benefits for which the Participant is eligible under the provisions of any federal or state law providing payments on account of disability, as these payments are defined in the Basic Disability Plan, during the period of eligibility for a Supplemental Disability Benefit. If (a) minus (b) results in zero or less, then no Supplemental Disability Benefit is payable. If the Basic Disability Plan Benefit increases under the Basic Disability Plan, or the Voluntary Disability Benefit increases, the Supplemental Disability Benefit will be decreased by the same amount.

The Supplemental Disability Benefit is intended to constitute a disability pay benefit that is exempt from Section 409A of the Code pursuant to Treasury Regulation Section 1.409A-1(a)(5).

5.2 Payment

Eligibility for a Supplemental Disability Benefit is determined by the Committee. The Supplemental Disability Benefit will be paid monthly. The last Supplemental Disability Benefit will be paid to the Participant at the earliest of (i) when the Committee deems that the Participant is no longer disabled, (ii) when Participant starts receiving a Supplemental Retirement Benefit, or (iii) when the Participant attains age 65.

SECTION 6

ADMINISTRATION

6.1 Authority of Committee

This Plan shall be administered by the Committee. Subject to the express provisions of this Plan, the Committee shall have full and final authority to interpret this Plan, to prescribe, amend and rescind rules, regulations and guides relating to the Plan, and to make any other determinations that it believes necessary or advisable for the administration of the Plan. The Committee may delegate certain responsibilities in the administration of the Plan. All decisions and determinations by the Committee shall be final and binding upon all parties.

6.2 Calculation of Benefits

Any and all payments to be made under this Plan and all Actuarial Equivalents shall be calculated by the Company's regularly employed independent actuaries, and their determinations shall be final and binding on all parties.

SECTION 7

MISCELLANEOUS

7.1 Amendment, Termination or Removal of Participant

- (a) The Committee may, in its sole discretion, terminate, suspend, or amend this Plan at any time, in whole or in part. However, no termination, amendment or suspension of the Plan will affect a retired or disabled Participant's right or the right of a Surviving Spouse to continue receiving a benefit in accordance with this Plan as in effect on the date such Participant or Surviving Spouse began to receive a benefit under this Plan. Furthermore, if a Participant then qualifies for Retirement under Section 1.19, such termination, amendment or suspension of the Plan will not affect such Participant's right or the right of such Participant's Surviving Spouse to receive the Supplemental Retirement Benefit or the Spouse's Supplemental Retirement Benefit to which he or she would

have been entitled if such Participant's Retirement Date had occurred immediately prior to such termination, amendment or suspension, as determined in accordance with this Plan as in effect immediately prior to such termination, amendment or suspension.

- (b) The Committee may, in its sole discretion, remove an executive as a Participant in this Plan due to changed job responsibilities or other changed circumstances as long as no benefits are then being paid to the Participant under this Plan. However, if a Participant then qualifies for Retirement under Section 1.19, such removal will not affect such Participant's right or the right of such Participant's Surviving Spouse to receive the Supplemental Retirement Benefit or the Spouse's Supplemental Retirement to which he or she would have been entitled if such Participant's Retirement Date had occurred immediately prior to such removal, as determined in accordance with this Plan as in effect immediately prior to such removal.

7.2 No Employment Right

Nothing contained herein will confer upon any Participant the right to be retained in Employment, nor will it interfere with the right of his Employer to discharge or otherwise deal with the Participant without regard to the existence of this Plan.

7.3 Funding

This Plan is unfunded, and the Employer will make Plan Benefit Payments solely on a current disbursement basis. Participants and their Beneficiaries shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Employer, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors.

7.4 Allocation of Costs

Amounts accrued as expenses under this Plan, and the cost of any life insurance policies purchased to fund for benefits payable under this Plan, shall be allocated to Employers whose employees are Participants in this Plan.

SECTION 8

BENEFITS DEFERRED UNDER DEFERRED COMPENSATION PLAN

Notwithstanding any other provision of the Plan, if a Participant has elected to defer the Participant's "SERP Lump Sum" as defined in the Deferred Compensation Plan, pursuant to the terms of the Sempra Energy Deferred Compensation Plan, no retirement benefits shall be payable under this Plan to the Participant, to the Participant's Surviving Spouse or to any other person effective immediately at and after the SERP Lump Sum has been credited to the Participant's account under the Sempra Energy Deferred Compensation Plan.

SECTION 9

SECTION 409A OF THE CODE

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

- 9.2 The Plan provides that benefits under the Plan are determined after an offset of the benefits provided under the Basic Pension Plan (which is a qualified employer plan, as defined in Treasury Regulation Section 1.409A-1(a)(2)). Accordingly, the Plan is intended to be a nonqualified deferred compensation plan subject to Treasury Regulation Sections 1.409A-2(a)(9) and 1.409A-3(j)(5). Any amendment of the Basic Pension Plan shall be taken into account under this Plan only to the extent permitted under Treasury Regulation Sections 1.409A-2(a)(9) and 1.409A-3(j)(5). Any reference to the interest and mortality factors (or actuarial methods and assumptions) specified in the Basic Pension Plan shall mean the applicable interest and mortality factors (or actuarial methods or assumptions) specified under the terms of the Basic Plan as in effect on December 31, 2008.

SECTION 10

CLAIMS PROCEDURE

10.1 Claim

A Participant, beneficiary or other person who believes that he is being denied a benefit to which he is entitled under this Plan (hereinafter referred to as "Claimant") may file a written request for such benefit with the Compensation Committee, setting forth his claim. The request must be addressed to the Compensation Committee at Sempra Energy at its then principal place of business. The claims procedure of this

Section shall be applied in accordance with Section 503 of ERISA and Department of Labor Regulation Section 2560.503-1. A Participant, beneficiary or other person may assert a claim, or request review of the denial of a claim, through such Participant's, beneficiary's or person's authorized representative, provided that such Participant, beneficiary or person has submitted a written notice evidencing the authority of such representative to the Compensation Committee.

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

10.2 **Claim Decision**

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

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

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

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

10.3 **Request for Review**

With 60 days after the receipt by the Claimant of the denial of the claim described above, the Claimant may request in writing a review the determination of the Compensation Committee. Such review shall be completed by the Compensation Committee. Such request must be addressed to the Compensation Committee of Sempra Energy, at its then principal place of business.

The Claimant shall be afforded the opportunity to submit written comments, documents, records, and other information relating to the claim, and the Claimant shall be provided, upon request and free of charge, reasonable access to all documents, records, and other information relevant to the Claimant's claim. A document, record or other information shall be considered "relevant" to the claim, as provided in Department of Labor Regulation Section 2560.503-1(m)(8). The review by the Compensation Committee shall take into account all comments, documents, records, and other information submitted by the Claimant, without regard to whether such information was submitted or considered in the Compensation Committee's initial determination with respect to the claim.

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

10.4 **Review of Decision**

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

SECTION 11

MISCELLANEOUS

11.1 **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.

11.2 **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 benefit under the Plan 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 this subsection (B), a Participant's benefit may be transferred pursuant to a domestic relations order that constitutes a "qualified domestic relations order" as defined by the Code or Title I of ERISA.

11.3 **Withholding**

There shall be deducted from each payment made under the Plan 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.

11.4 **Governing Law**

This Plan shall be construed, governed and administered in accordance with the ERISA.

11.5 **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 Compensation 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 prior to the payment date specified under the Plan.

11.6 **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 Compensation Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Compensation Committee may direct that such payment be made to any person found by the Compensation 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 Compensation Committee and the Company.

11.7 **Notice**

Any notice or filing required or permitted to be given to the Compensation 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 Sempra Energy. 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.

11.8 **Errors and Misstatements**

In the event of any misstatement or omission of fact by a Participant to the Compensation Committee or any clerical error resulting in payment of benefits in an incorrect amount, the Compensation 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 Compensation 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

11.9 **Pronouns and Plurality**

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

11.10 **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.

11.11 **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.

Executed at San Diego, California this 11th day of December, 2008.

SEMPRA ENERGY

By:

G. Joyce Rowland
Sr. Vice President, Human Resources

APPENDIX A

EARLY RETIREMENT REDUCTION FACTOR

Age	Early Retirement Factor*
62 and later	100%
61	97
60	94
59	90
58	86
57	82
56	78
55	74

*Reduction factors vary by age and months.

APPENDIX B

GRANDFATHER BENEFIT

Current Participants in the Prior Plans are permanently grandfathered under the Prior Plan provisions if the benefit is greater.

**AMENDMENT TO THE
SEMPRA ENERGY DEFERRED COMPENSATION
AND EXCESS SAVINGS PLAN**

This Amendment (this "Amendment") to the Sempra Energy Deferred Compensation and Excess Savings Plan, as amended (the "Plan"), was adopted by Sempra Energy, a California corporation (the "Company"), on December 11, 2008.

RECITALS

- A. The Compensation Committee of the Board of Directors of the Company deemed it advisable to amend the Plan, effective as of the date hereof in order to comply with Section 409A of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder.
- B. Pursuant to Section 9.4 of the Plan, the Compensation Committee of the Board of Directors of the Company has the authority to amend the Plan, subject to certain limitations.

AMENDMENT

1. Effective as of the date hereof, the Plan is hereby amended to add the following new Section 9.19:

"9.19. Appendices.

The Committee may approve such supplements to, or amendments, or appendices to, the Plan as it may consider necessary or appropriate for purposes of compliance with applicable laws or otherwise and such supplements, amendments or appendices shall be considered a part of the Plan."

2. Effective as of the date hereof, the Plan is hereby amended to add a new appendix in the form attached hereto as Exhibit A.
3. Capitalized terms used in this Amendment without definition shall have the respective meanings ascribed thereto in the Plan.
4. Except as otherwise expressly set forth in this Amendment, the Plan shall remain in full force and effect in accordance with its terms.

I hereby certify that this Amendment was duly adopted by the Compensation Committee of the Board of Directors of Sempra Energy on December 11, 2008.

Executed this 11th day of December, 2008.

SEMPRA ENERGY,
a California corporation

G. Joyce Rowland
Sr. Vice President, Human Resources

**APPENDIX
TO THE
SEMPRA ENERGY DEFERRED COMPENSATION
AND EXCESS SAVINGS PLAN**

Internal Revenue Section 409A Compliance

Notwithstanding anything to the contrary contained in the Sempra Energy Deferred Compensation and Excess Savings Plan, the provisions set forth in this Appendix shall apply to all "Section 409A Deferred Compensation" (as defined below).

The purpose of this Appendix is to set forth provisions necessary to comply with Section 409A of the Internal Revenue Code of 1986, as amended. If any of the provisions contained in this Appendix are inconsistent with such requirements, such provisions shall be deemed null and void. The invalidity of any provision of this Appendix shall not affect the validity or enforceability of any other provision of this Appendix, which shall remain in full force and effect. This Appendix, together with the Plan, as amended from time to time, shall constitute the Plan in its entirety.

References to Articles and Sections set forth in this Appendix are to those Articles and Sections of the Plan.

ARTICLE I.

DEFINITIONS

1.1 Definitions.

Whenever the following words and phrases are used in this Appendix, with the first letter capitalized, they shall have the meanings specified below or, if not defined herein, the Plan.

(a) "**Excess Moody's Earnings**" shall mean an amount equal to:

(1) the hypothetical earnings credited to a Participant's Deferral Account on or after January 1, 2009 pursuant to Section 5.1(b) using a hypothetical rate of investment return equal to the Moody's Plus Rate, *less* the hypothetical earnings that would have been credited to such Participant's Deferral Account on or after January 1, 2009 pursuant to Section 5.1(b) using a hypothetical rate of investment return equal to the Moody's Rate in lieu of the Moody's Plus Rate (the "**Original Excess Moody's Earnings**"); *plus*

(2) all hypothetical earnings credited or debited to a Participant's Deferral Account, 401(k) Excess Account and/or Company Matching Account on or after January 1, 2009 pursuant to Section 5.1(b) with respect to the Original Excess Moody's Earnings.

(b) "**Excess Prior Rate Earnings**" shall mean an amount equal to:

(1) the hypothetical earnings credited to a Participant's Transferred Account on or after January 1, 2009 pursuant to Section 5.1(b) using a hypothetical rate of investment return equal to the Prior Rate, *less* the hypothetical earnings that would have been credited to such Participant's Transferred Account on or after January 1, 2009 pursuant to Section 5.1(b) using a hypothetical rate of investment return equal to the Moody's Rate in lieu of the Prior Rate (the "**Original Excess Prior Rate Earnings**"); *plus*

(2) all hypothetical earnings credited or debited to a Participant's Deferral Account, 401(k) Excess Account, Company Matching Account and/or Transferred Account on or after January 1, 2009 pursuant to Section 5.1(b) with respect to the Original Excess Prior Rate Earnings.

(c) "**Moody's Rate**", for any given calendar year, shall mean the average of the daily Moody's Corporate Bond Yield Average – Monthly Average Corporates for the month of June in the preceding year.

(d) "**Section 409A Deferred Compensation**" shall mean a Participant's Excess Moody's Earnings and Excess Prior Rate Earnings.

(e) "**Section 409A Deferred Compensation Payment Date**" shall mean the date chosen by the Company, in its discretion, during the 30 day period commencing with the first day of the first calendar month that begins at least 30 days after the date of Participant's Separation from Service.

(f) "**Separation from Service**" shall mean a Participant's "separation from service," as defined in Treasury Regulation Section 1.409A-1(h), with respect to the Service Recipient.

(g) "**Service Provider**" shall mean a Participant or any other "service provider," as defined in Treasury Regulation Section 1.409A-1(f), with respect to the Service Recipient.

(h) "**Service Recipient**", with respect to a Participant, shall mean Sempra Energy (if the Participant is employed by Sempra Energy or is a Director), or the subsidiary of Sempra Energy employing the Participant, whichever is applicable, and all persons considered part of the "service recipient," as defined in Treasury Regulation Section 1.409A-1(g), as determined from time to time. As provided in Treasury Regulation Section 1.409A-1(g), the "**Service Recipient**" shall mean the person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Code Section 414(b) or 414(c).

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

special rules provided in Treasury Regulation Section 1.415(c)-2(g)), from the Service Recipient for such Testing Year. The "Specified Employees" shall be determined in accordance with Code Section 409A(a)(2)(B)(i) and Treasury Regulation Section 1.409A-1(i).

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

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

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

ARTICLE II.

SECTION 409A DEFERRED COMPENSATION; DISTRIBUTIONS

2.1 Section 409A Deferred Compensation Subaccounts. The Committee shall establish and maintain a separate subaccount under each Participant's Deferral Account, 401(k) Excess Account, Company Matching Account and/or Transferred Account for purposes of determining the portion of such account comprised of Excess Moody's Earnings and Excess Prior Rate Earnings.

2.2 Distribution of Section 409A Deferred Compensation – Accounts Not in Pay Status. Notwithstanding anything to the contrary in Article VII or any existing deferral election, in the case of a Participant with a Deferral Account, 401(k) Excess Account, Company Matching Account and/or Transferred Account who has not had a Separation from Service, such Participant's Section 409A Deferred Compensation shall be paid commencing on the Section 409A Deferred Compensation Payment Date in accordance with the distribution schedule set forth next to his or her name in the table below; provided, however, the distribution of all or a portion of a Participant's Section 409A Deferred Compensation otherwise payable upon the Separation from Service of a Participant who is a Specified Employee (determined as of the date of Separation from Service), shall not be made before the date which is six months after the date of such Participant's Separation from Service (or, if earlier, the date of such Participant's death) in accordance with Code Section 409A(a)(2)(B)(i) and the Treasury Regulations thereunder, and such payments shall instead be made during the 30-day period following such date.

Participant's Name	Distribution Schedule
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2.3 Distribution of Section 409A Deferred Compensation – Accounts in Pay Status. Notwithstanding anything to the contrary in Article VII or any existing deferral election, in the case of a Participant with a Transferred Account who has had a Separation from Service, such Participant's Section 409A Deferred Compensation shall continue to be paid in accordance with the distribution schedule set forth next to his or her name in the table below.

Participant's Name	Distribution Schedule	Separation from Service Date
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2.4 Distribution of Section 409A Deferred Compensation – Other Participants. Notwithstanding anything to the contrary in Article VII or any existing deferral election, in the case of a Participant (other than a Participant identified in Section 2.2 or 2.3) with a Deferral Account, 401(k) Excess Account, Company Matching Account and/or Transferred Account who has not had a Separation from Service, such Participant's Section 409A Deferred Compensation in such Accounts shall be paid commencing on the Section 409A Deferred Compensation Payment Date in accordance with the distribution schedule determined pursuant to Section 7.1(a) of the Plan based on the Participant's deferral election in effect on December 31, 2008; provided, however, that the references to Participant's "Termination" or "Retirement" shall instead be deemed to be references to Participant's "Separation from Service (as defined in the Appendix)". Notwithstanding the foregoing, the distribution of all or a portion of a Participant's Section 409A Deferred Compensation otherwise payable upon the Separation from Service of a Participant who is a Specified Employee (determined as of the date of Separation from Service), shall not be made before the date which is six months after the date of such Participant's Separation from Service (or, if earlier, the date of such Participant's death) in accordance with Code Section 409A(a)(2)(B)(i) and the Treasury Regulations thereunder, and such payments shall instead be made during the 30-day period following such date.

2.5 Distribution at Death. In the event a Participant dies, whether before or after he has begun receiving distributions of Section 409A Deferred Compensation, his Section 409A Deferred Compensation shall be paid to his Beneficiary in the same manner elected by the Participant.

2.6 Calculating Installments. In the event that a Participant elects to have all or any portion of his Section 409A Deferred Compensation distributed in a series of installments, the amount of each installment shall be determined in accordance with Section 7.1(a)(6).

2.7 Small Accounts. Notwithstanding anything to the contrary in the Plan, in no event shall all or any portion of a Participant's Section 409A Deferred Compensation be distributable pursuant to Section 7.1(a)(3), except as permitted in accordance with Treasury Regulation Section 1.409A-3(j)(4)(v).

2.8 Inapplicability of Certain Provisions to Section 409A Deferred Compensation. Except as expressly provided in Section 2.7 of this Appendix, in no event shall the provisions of Section 7.1(a)(3) (Small Accounts), Section 7.1(b) (Distribution on a Scheduled Withdrawal Date), Section 7.1(c) (Distribution upon Death), Section 7.2 (Early Distributions), Section 7.3 (Hardship Distribution), Section 7.4(a) (Effect of a Change in Control) or Section 9.9 (Compliance with Code Section 162(m)) be applicable with respect to a Participant's Section 409A Deferred Compensation.

ARTICLE III.

CODE SECTION 409A

With respect to the Section 409A Deferred Compensation, the Plan and this Appendix shall be interpreted, construed and administered in a manner that satisfies the requirements of Code Sections 409A(a)(2), (3) and (4) and the Treasury Regulations thereunder (subject to the transitional relief under Internal Revenue Service Notice 2005-1 and other applicable authority issued by the Internal Revenue Service).

As required by Internal Revenue Notice 2007-86, notwithstanding any provision to the contrary in this Appendix (including, without limitation, any provision in Article II), nothing contained herein shall cause an amount to be paid in 2009 or later that would otherwise be payable in 2008 pursuant to the terms of the Plan, as in effect prior to the adoption of this Appendix, and nothing herein shall cause an amount to be paid in 2008 that would not otherwise be payable in 2008 pursuant to the terms of the Plan, as in effect prior to the adoption of this Appendix.

**SEMPRA ENERGY
AMENDED AND RESTATED
EXECUTIVE MEDICAL PLAN**

Sempra Energy, a California corporation (the "Company"), maintains the Sempra Energy Executive Medical Plan (the "Plan").

Sempra Energy hereby amends and restates the Plan, effective as of June 16, 2008. The medical expense reimbursement benefits under this Plan shall be provided through insurance maintained by the Company and such benefits are intended to be exempt from Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). This amendment and restatement of the Plan is intended to comply with the requirements of Sections 409A(a)(2), (3) and (4) of the Code (as defined below) and the Treasury Regulations thereunder with respect to any benefits under paragraph 6. Also, the name of the Plan is hereby amended to be "Sempra Energy Amended and Restated Executive Medical Plan."

1. The Plan shall provide, through insurance maintained by the Company, reimbursement at least quarterly to any officer of the Company or of Pacific Enterprises, Southern California Gas Company, Enova or San Diego Gas & Electric Company, for expenses incurred by such officer and the eligible dependents of such officer for medical care, as defined with the limits set forth in the Schedule of Benefits which is attached to and made a part of this Plan. The Compensation Committee of the Company's Board of Directors shall designate from time to time which officers shall participate in the Plan.

The medical care expenses reimbursed under the Plan shall be limited to those described in the Schedule of Benefits include all amounts paid for hospital bills, doctor and dentist bills, vision care and prescription drugs. Dependents are as defined in the medical plan.

2. The Plan may arrange for payment of any or all of the above-defined expenses in lieu of making reimbursement thereof. In such event, the Plan shall be relieved of all further responsibility with respect to that particular medical expense.
3. Reimbursement or payment of medical and dental expenses as defined above under this Plan to, or on behalf of, a participating officer and his spouse and dependents shall not exceed an aggregate total of \$20,000 per calendar year.
4. Any participating officer applying for reimbursement under this Plan shall submit to the Company or the insurance company insuring benefits under the Plan, at least quarterly, all hospitalization, doctor, dental or other medical bills for verification by the Company or such insurance company prior to payment. A failure to comply herewith may, at the discretion of the Company, terminate such officer's right to said reimbursement.
5. Reimbursement or payment provided under this Plan shall be made only in the event and to the extent that such reimbursement or payment is not provided for under any insurance policy or policies (other than the insurance policy maintained in connection with the Plan), whether owned by the Company or the covered officers, or under any other health and accident plan. In the event that there is such a policy, then to the extent of the coverage under such policy or plan, the Plan shall be relieved of any and all liability hereunder.
6. It is the intention of the Company that benefits payable under this Plan shall be eligible for exclusion from the gross income of the officers covered by this Plan, as provided by Section 105 of the Internal Revenue Code of 1986, as hereafter amended. If such benefits are not excludable, additional benefits will be paid so that each officer will be in the same financial position after payment as he would have been if the benefits had been excludable; provided, however, that such additional benefits shall be made by the end of the officer's taxable year next following the officer's taxable year in which the officer remits the related taxes, in accordance with Treasury Regulation Section 1.409A-3(i)(1)(v).
7. A copy of this Plan shall be given to all officers of the Company who are or become participants in this Plan.
8. This Plan shall be subject to amendment or termination at any time hereafter by affirmative vote of the Board of Directors of the Company, *provided, however*, that such termination shall not affect any right to claim reimbursement for medical expenses arising prior to the effective date of said termination.
9. The Company shall be the named fiduciary for purposes of Section 402(a) of the Employee Retirement Income Security Act of 1974.
10. The Company's Senior Vice President of Human Resources Officer shall have discretionary authority with respect to administrative matters relating to this Plan, except when exercise of such authority would materially affect the cost of the Plan to the Employer, materially increase benefits to Participants, or affect such Senior Vice President Human Resources Officer in a manner materially different from other participants.

SCHEDULE OF BENEFITS
EXECUTIVE MEDICAL PLAN

MEDICAL CARE EXPENSES SUBJECT TO REIMBURSEMENT

1. Employee's and employee's dependents' deductible under the Health and/or Dental Plans sponsored by the Company and/or a subsidiary of the Company ("Health and Dental Plans").
2. Employee's and employee's dependents' copayment obligation for dental and major medical liability under the Health and Dental Plans.
3. Differential between the amount payable for room and board under the Health Plan and the actual charge for a private hospital room.
4. Differential between the amounts payable for eligible medical and dental expenses under the Health and Dental Plans and the actual charges.
5. Necessary transportation (within the continental USA and Canada) of the patient to or from the nearest facility equipped to furnish treatment.
6. Eye refractions and the purchase or fitting of hearing aids and eyeglasses, including prescription sunglasses and contact lenses.
7. Replacement of lost or stolen dentures, bridges, or dental appliances.
8. HMO copayments.
9. Podiatric treatment and services when medically necessary.
10. Charges incurred outside of the United States subject to any limits in this plan and the Health and Dental Plans which would be applicable if the charges had been incurred within the United States.

MAXIMUM BENEFITS

1. Maximum payable under this plan: \$20,000 maximum annual medical (including dental and treatment for mental illness, nervous disorders, and chemical dependency) benefit per family. Provided that for the first plan year (July 1 – December 31, 1998) the \$20,000 shall be reduced by any benefits received in 1998 from the Pacific Enterprises Supplemental Medical Reimbursement Plan.
2. Maximum payable under a combination of all Health and Dental plans in which member is a participant:
 - § \$1,500 lifetime orthodontic treatment maximum per member; and
 - § \$1,000,000 lifetime medical and dental maximum for all illnesses per member.

CHARGES NOT COVERED

1. Charges to the extent they would be covered under the Health and Dental Plans.
2. Care, treatment or operations performed for cosmetic purposes, whether medical or dental, including dental implants, unless incurred as a result of any accident which occurred while insured.
3. Charges for nonprescription drugs and medical supplies.
4. Charges for care or treatment as a result of war, declared or undeclared.
5. Charges for any sickness or injury which arises out of or in the course of employment, and for which the patient is entitled to benefits under a Workers' Compensation law.
6. Charges for medical or dental procedures performed by other than legally-qualified physicians, surgeons, therapists, or licensed dentists and dental hygienists.
7. Charges which the plan participant is not legally obligated to pay, such as U.S. Government hospital confinement and services, etc.
8. Charges excluded under the Health and Dental Plans which are not specifically included in the Schedule of Payments.

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

	2004	2005	2006	2007	2008
Fixed charges and preferred stock dividends:					
Interest	\$ 332	\$ 342	\$ 413	\$ 379	\$ 353
Interest portion of annual rentals	4	5	6	6	3
Preferred dividends of subsidiaries (1)	12	10	15	14	13
Total fixed charges	348	357	434	399	369
Preferred dividends for purpose of ratio	-	-	-	-	-
Total fixed charges and preferred dividends for purpose of ratio	\$ 348	\$ 357	\$ 434	\$ 399	\$ 369
Earnings:					
Pretax income from continuing operations	\$ 1,105	\$ 947	\$ 1,732	\$ 1,649	\$ 1,551
Add:					
Total fixed charges (from above)	348	357	434	399	369
Distributed income of equity investees	59	73	431	19	133
Less:					
Interest capitalized	8	28	58	100	100
Equity in income (loss) of unconsolidated subsidiaries and joint ventures	36	66	156	90	483
Minority interest in income of consolidated subsidiaries	-	-	7	31	69
Total earnings for purpose of ratio	\$ 1,468	\$ 1,283	\$ 2,376	\$ 1,846	\$ 1,401
Ratio of earnings to combined fixed charges and preferred stock dividends	4.22	3.59	5.47	4.63	3.80
Ratio of earnings to fixed charges	4.22	3.59	5.47	4.63	3.80

(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.

EXHIBIT 12.2
SAN DIEGO GAS & ELECTRIC COMPANY
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Fixed Charges and Preferred Stock Dividends:					
Interest	\$ 71	\$ 77	\$ 102	\$ 105	\$ 107
Interest portion of annual rentals	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>1</u>
Total fixed charges	73	80	105	108	108
Preferred stock dividends (1)	<u>8</u>	<u>6</u>	<u>8</u>	<u>7</u>	<u>7</u>
Combined fixed charges and preferred stock dividends for purpose of ratio	<u>\$ 81</u>	<u>\$ 86</u>	<u>\$ 113</u>	<u>\$ 115</u>	<u>\$ 115</u>
Earnings:					
Pretax income from continuing operations	\$ 361	\$ 356	\$ 394	\$ 423	\$ 505
Total fixed charges (from above)	73	80	105	108	108
Less: Minority interest	-	-	-	17	54
Less: Interest capitalized	<u>1</u>	<u>1</u>	<u>1</u>	<u>3</u>	<u>13</u>
Total earnings for purpose of ratio	<u>\$ 433</u>	<u>\$ 435</u>	<u>\$ 498</u>	<u>\$ 511</u>	<u>\$ 546</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>5.35</u>	<u>5.06</u>	<u>4.41</u>	<u>4.44</u>	<u>4.75</u>
Ratio of earnings to fixed charges	<u>5.93</u>	<u>5.44</u>	<u>4.74</u>	<u>4.73</u>	<u>5.06</u>

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

EXHIBIT 12.3
PACIFIC ENTERPRISES
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	2004	2005	2006	2007	2008
Fixed Charges:					
Interest	\$ 47	\$ 55	\$ 78	\$ 78	\$ 68
Interest portion of annual rentals	2	3	4	3	2
Preferred dividends of subsidiary (1)	2	2	2	2	2
Total fixed charges	51	60	84	83	72
Preferred stock dividends	7	6	6	6	6
Combined fixed charges and preferred stock dividends for purpose of ratio	<u>\$ 58</u>	<u>\$ 66</u>	<u>\$ 90</u>	<u>\$ 89</u>	<u>\$ 78</u>
Earnings:					
Pretax income from continuing operations	\$ 390	\$ 324	\$ 425	\$ 407	\$ 393
Total fixed charges (from above)	51	60	84	83	72
Less: Interest capitalized	-	-	1	1	-
Total earnings for purpose of ratio	<u>\$ 441</u>	<u>\$ 384</u>	<u>\$ 508</u>	<u>\$ 489</u>	<u>\$ 465</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>7.60</u>	<u>5.82</u>	<u>5.64</u>	<u>5.49</u>	<u>5.96</u>
Ratio of earnings to fixed charges	<u>8.65</u>	<u>6.40</u>	<u>6.05</u>	<u>5.89</u>	<u>6.46</u>

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

EXHIBIT 12.4
SOUTHERN CALIFORNIA GAS COMPANY
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	2004	2005	2006	2007	2008
Fixed Charges:					
Interest	\$ 40	\$ 50	\$ 72	\$ 72	\$ 65
Interest portion of annual rentals	2	3	4	3	2
Total fixed charges	42	53	76	75	67
Preferred stock dividends (1)	2	2	2	2	2
Combined fixed charges and preferred stock dividends for purpose of ratio	<u>\$ 44</u>	<u>\$ 55</u>	<u>\$ 78</u>	<u>\$ 77</u>	<u>\$ 69</u>
Earnings:					
Pretax income from continuing operations	\$ 387	\$ 309	\$ 397	\$ 391	\$ 385
Add: Total fixed charges (from above)	42	53	76	75	67
Less: Interest capitalized	-	-	1	1	-
Total earnings for purpose of ratio	<u>\$ 429</u>	<u>\$ 362</u>	<u>\$ 472</u>	<u>\$ 465</u>	<u>\$ 452</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>9.75</u>	<u>6.58</u>	<u>6.05</u>	<u>6.04</u>	<u>6.55</u>
Ratio of earnings to fixed charges	<u>10.21</u>	<u>6.83</u>	<u>6.21</u>	<u>6.20</u>	<u>6.75</u>

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

SEMPRA ENERGY FINANCIAL REPORT

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This Financial Report is a combined report for the following separate companies (each a separate Securities and Exchange Commission registrant):

*Sempra Energy
San Diego Gas & Electric Company*

*Pacific Enterprises
Southern California Gas Company*

The following section of the 2008 Annual Report includes

- § A description of our business
- § An executive summary
- § A discussion and analysis of our operating results for 2006 through 2008
- § Information about our capital resources and liquidity
- § Major factors expected to influence our future operating results
- § A discussion of market risk affecting our businesses
- § A table of accounting policies that we consider critical to our financial condition and results of operations

You should read Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the Consolidated Financial Statements included in this Annual Report.

OUR BUSINESS

Sempra Energy is a Fortune 500 energy services holding company whose business units provide electric, natural gas and other energy products and services to their customers. Our operations are divided principally between the Sempra Utilities and Sempra Global. The Sempra Utilities consist of two California regulated public utility companies, 1) San Diego Gas & Electric Company (SDG&E) and 2) Southern California Gas Company (SoCalGas). Sempra Global consists of businesses engaged in providing energy products and services. (See Figure 1.)

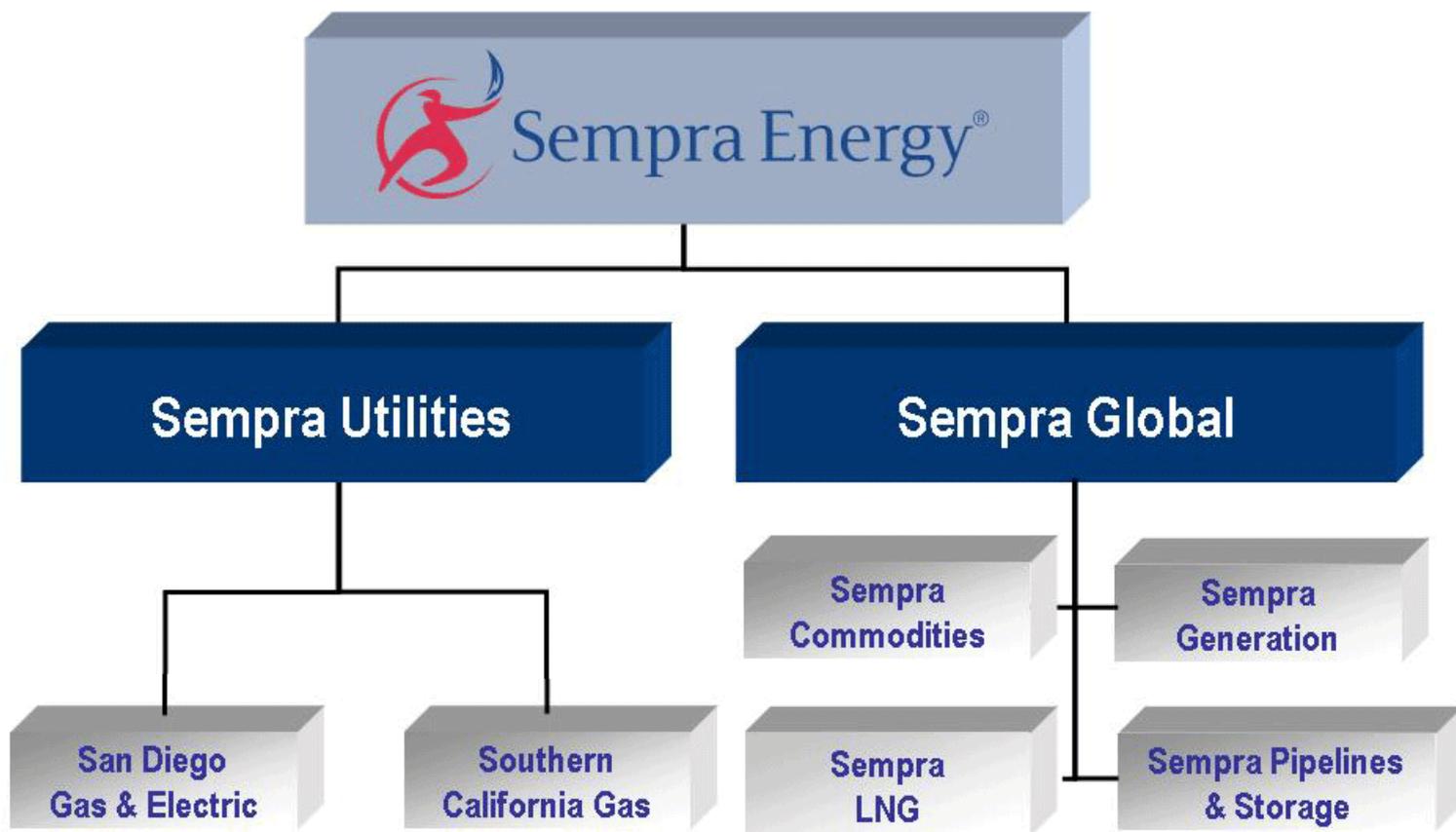


Figure 1: Sempra Energy's Business Units

This report includes information for the following separate registrants:

§ Sempra Energy and its consolidated entities

§ SDG&E

§ Pacific Enterprises (PE), the holding company for SoCalGas

§ SoCalGas

References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, collectively, unless otherwise indicated by its context.

PE's operations consist solely of those of SoCalGas and additional items (e.g., cash, intercompany accounts and equity) attributable to being a holding company for SoCalGas.

Below are the summary descriptions of our operating business units.

SEMPRA BUSINESS UNITS

SEMPRA UTILITIES		
	MARKET	SERVICE TERRITORY
SAN DIEGO GAS AND ELECTRIC COMPANY (SDG&E) A regulated public utility; infrastructure supports electric distribution and transmission, and natural gas distribution	§ Provides electricity to 3.4 million consumers § Provides natural gas to 3.1 million consumers	Serves the county of San Diego, CA and southern Orange County covering 4,100 square miles
SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) A regulated public utility; infrastructure supports natural gas distribution, transmission and storage	§ Residential, commercial, industrial, utility electric generation and wholesale customers § Covers a population of 20.5 million	

The Sempra Utilities consist of SDG&E and SoCalGas.

SDG&E

SDG&E provides electricity to 3.4 million consumers and natural gas to 3.1 million consumers. It delivers the electricity through 1.4 million meters in San Diego County and an adjacent portion of southern Orange County, California. SDG&E's electric energy is purchased from others or generated from its Palomar and Miramar electric generation facilities and its 20-percent ownership interest in the San Onofre Nuclear Generating Station (SONGS). SDG&E also delivers natural gas through 840,000 meters in San Diego County and transports electricity and natural gas for others. SDG&E's service territory encompasses 4,100 square miles.

Sempra Energy indirectly owns all of the common stock of SDG&E. SDG&E also has issued publicly held preferred stock. The preferred stock has liquidation preferences totaling \$79 million and represents less than 3% of the ordinary voting power of SDG&E shares.

SDG&E's financial statements include a variable interest entity, Otay Mesa Energy Center LLC (Otay Mesa VIE), as we discuss in Note 1 of the Notes to Consolidated Financial Statements.

SoCalGas

SoCalGas is the nation's largest natural gas distribution utility. SoCalGas owns and operates a natural gas distribution, transmission, and storage system that supplies natural gas to approximately 20,000 square miles of

service territory. Its service territory extends from San Luis Obispo, California in the north to the Mexican border in the south, excluding San Diego County, the city of Long Beach and the desert area of San Bernardino County. SoCalGas provides natural gas service to residential, commercial, industrial, utility electric generation and wholesale customers through 5.7 million meters, covering a population of 20.5 million.

Sempra Energy owns all of the common stock of PE and PE owns all of the common stock of SoCalGas. PE and SoCalGas also have publicly held preferred stock, which represents less than 1% of the ordinary voting power of each company. The PE and SoCalGas preferred stock have liquidation preferences totaling \$80 million and \$22 million, respectively.

SEMPRA GLOBAL		
	MARKET	GEOGRAPHIC REGION
SEMPRA COMMODITIES RBS Sempra Commodities, a joint venture with The Royal Bank of Scotland (RBS), a commodities-marketing business	§ Natural gas; natural gas liquids § Power § Petroleum and petroleum products § Coal § Emissions § Ethanol § Base metals	Global
SEMPRA GENERATION Develops, owns and operates electric power plants	§ Wholesale electricity	U.S.A. Mexico
SEMPRA PIPELINES & STORAGE Develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities, and natural gas and electric service providers	§ Natural gas § Electricity	U.S.A. Mexico Argentina Chile Peru
SEMPRA LNG Develops, owns and operates receipt terminals for importing liquefied natural gas (LNG)	§ Natural gas	U.S.A. Mexico

Sempra Global is a holding company for most of our subsidiaries that are not subject to California utility regulation. Sempra Global's principal business units, which provide energy-related products and services, are

§ Sempra Commodities

§ Sempra Generation

§ Sempra Pipelines & Storage

§ Sempra LNG

A description of each business unit follows.

Sempra Commodities

Sempra Commodities holds our investment in RBS Sempra Commodities LLP (RBS Sempra Commodities), a joint venture with The Royal Bank of Scotland (RBS). The partnership was formed on April 1, 2008 from our commodities-marketing businesses previously reported in this business unit. The partnership's commodities-trading businesses serve customers in the global markets for natural gas, natural gas liquids, power, petroleum and

petroleum products, coal, emissions, ethanol and base metals. We provide further discussion about the joint venture in Notes 3, 4 and 6 of the Notes to Consolidated Financial Statements. Sempra Commodities also includes the operating results of Sempra Rockies Marketing, which holds firm service capacity on the Rockies Express Pipeline.

Sempra Generation

Sempra Generation develops, owns and operates electric power plants serving wholesale electricity markets in North America. It sells electricity under long-term contracts and into the spot market and other competitive markets. Sempra Generation purchases natural gas to fuel its natural gas-fired power plants and may also purchase electricity in the open market to satisfy its contractual obligations. Sempra Generation also develops renewable energy generation projects.

The following table provides information about each of Sempra Generation's power plants. Approximately 75% and 60% of this generating capacity is under long-term contracts with the California Department of Water Resources (DWR) and other parties through 2010 and 2011, respectively.

SEMPRA GENERATION POWER PLANTS			
<i>Capacity in Megawatts (MW)</i>			
Power Plant	Maximum Generating Capacity	First In Service	Location
Mesquite Power	1,250	2003	Arlington, AZ
Termoeléctrica de Mexicali	625	2003	Mexicali, Baja California, Mexico
El Dorado	490*	2000	Boulder City, NV
Elk Hills (50% owned)	275**	2003	Bakersfield, CA
Total MW in operation	2,640		

* Includes 10 MW of solar generating capacity
 ** Sempra Generation's share

Sempra Generation's three 100%-owned facilities, Mesquite Power, Termoeléctrica de Mexicali, and El Dorado, sell the majority of their output under long-term contracts and a purchased-power contract. The largest contract is with the DWR and provides for 1,200 MW to be supplied during all hours and an additional 400 MW during peak hours. This contract ends September 30, 2011. Sempra Generation also has other purchased-power contracts, primarily with RBS Sempra Commodities, to sell varying amounts of power through 2012. In addition to these contracts, Sempra Generation has a purchased-power contract expiring in 2010 that permits the call for delivery of up to 300 MW of power, both peak and off peak hours, at a predetermined price. Combined, including the DWR contract, these contracts are expected to utilize approximately 85% to 90% of the Sempra Generation 100%-owned fleet capacity output through September 30, 2011; the remaining output is expected to be sold into the California market on a daily basis.

The El Dorado facility (excluding the solar facility) is expected to be transferred to SDG&E on October 1, 2011, which coincides with the end of the DWR contract. Note 14 of the Notes to Consolidated Financial Statements provides information on this transfer.

Sempra Generation also has a 50% equity interest in Elk Hills, a merchant plant located in Bakersfield, California. Elk Hills sells its output into the California market on a daily basis.

Subject to approval by the California Public Utilities Commission, Sempra Generation has a 20-year power purchase agreement with Pacific Gas and Electric for all of the output of its 10-MW solar facility.

Sempra Pipelines & Storage

Sempra Pipelines & Storage develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities in the United States and Mexico, and in companies that provide natural gas or electric services in Argentina, Chile, Mexico and Peru. Sempra Pipelines & Storage is currently pursuing the sale of its interests in the Argentine utilities, which we discuss further in Note 4 of the Notes to Consolidated Financial Statements.

The natural gas distribution utility that operates in three separate areas in Mexico had a customer count of 94,650 and sales volume of 52 million cubic feet per day in 2008, which is comparable to amounts in 2007. The pipeline

system in Mexico was recently expanded and had a contracted capacity for up to 2,600 million cubic feet per day in 2008 and 450 million cubic feet per day in 2007. The increase in 2008 was due to the start of commercial operations of the pipeline expansion in connection with Sempra LNG's Energía Costa Azul LNG receipt terminal, which uses these pipelines to transport its regasified natural gas and began operations in May 2008.

Sempra Pipelines & Storage also includes the operations of EnergySouth, which it acquired in October 2008. EnergySouth owns and operates, or holds interests in, natural gas underground storage and related pipeline facilities in Alabama and Mississippi (now Sempra Midstream), and owns Mobile Gas Service Corporation (Mobile Gas), a small regulated natural gas distribution utility in Southwest Alabama.

Sempra Pipelines & Storage, Kinder Morgan Energy Partners, L.P. (KMP) and ConocoPhillips are, through Rockies Express, jointly developing a natural gas pipeline, the Rockies Express Pipeline (REX), that will link producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Our participation in the project is 25%. Sempra Rockies Marketing, part of the Sempra Commodities segment, has an agreement with Rockies Express for 200 million cubic feet per day of capacity on the REX, which will have capacity of 1.8 billion cubic feet (Bcf) per day. Sempra Rockies Marketing has released a portion of this capacity to RBS Sempra Commodities, and RBS Sempra Commodities has assisted Sempra Rockies Marketing with marketing remaining capacity.

REX-West, the segment of the pipeline which extends 713 miles from the Cheyenne Hub to Audrain County in Missouri, began interim service in January and full service in May 2008. Construction began in July 2008 on REX-East, which will extend the pipeline from Audrain County to Clarington in Ohio. Subject to receipt of regulatory approvals, REX-East is expected to be fully operational in late 2009, with service to delivering points in Illinois, Indiana and Ohio during 2009.

Sempra LNG

Sempra LNG develops, owns and operates receipt terminals for importing liquefied natural gas (LNG), and has supply and marketing agreements to provide natural gas. Sempra LNG utilizes its regasification terminals by entering into long-term firm capacity service agreements when able to do so. Under these agreements, customers pay Sempra LNG fees to use its facilities to regasify the customer's LNG. Sempra LNG also may enter into long-term supply agreements to purchase LNG, which is regasified at its terminals for sale to other parties. Sempra LNG may also fill capacity and purchase LNG supplies under short-term contracts.

Sempra LNG's Energía Costa Azul LNG receipt terminal in Baja California, Mexico began commercial operations in May 2008 and has a sendout capacity of 1 Bcf of natural gas per day. The Energía Costa Azul facility currently generates revenue under an agreement with Shell México Gas Natural, using one-half of the terminal's capacity. Sempra LNG has a purchase agreement with Tangguh PSC Contractors (Tangguh PSC) for the supply of 500 million cubic feet of natural gas per day from Indonesia's Tangguh liquefaction facility to Sempra LNG's Energía Costa Azul regasification terminal at a price based on the Southern California border index price for natural gas. Sempra LNG has a contract to sell a portion of the volumes purchased from Tangguh PSC to Mexico's national electric company, Comisión Federal de Electricidad (CFE) at prices that are based on the Southern California border index price. Sempra LNG also has an agreement with RBS Sempra Commodities for RBS Sempra Commodities to market any volumes purchased from Tangguh PSC that are not sold to the CFE.

A nitrogen-injection facility currently under construction will allow the terminal to process LNG cargoes from a wider variety of sources and will provide additional revenue from payments for the injection service.

Sempra LNG's Cameron LNG receipt terminal is currently under construction in Hackberry, Louisiana. In the second half of 2009, we expect to complete construction and begin receiving capacity revenues. The facility will have a capacity of 1.5 Bcf per day, and 40% of the capacity is contracted for twenty years following the start of facility operations.

Sempra LNG also owns property in Port Arthur, Texas, that we are evaluating for potential development.

REGULATION OF SEMpra UTILITIES AND OTHER BUSINESS UNITS

The Sempra Utilities are regulated by federal, state and local governmental agencies. The primary regulatory agency is the California Public Utilities Commission (CPUC). The CPUC regulates the Sempra Utilities' rates and operations in California, except for SDG&E's electric transmission operations. The Federal Energy Regulatory Commission (FERC) regulates SDG&E's electric transmission operations. The FERC also regulates interstate transportation of natural gas and various related matters.

The Nuclear Regulatory Commission regulates the San Onofre nuclear generating plant, in which SDG&E owns a 20% interest. Municipalities and other local authorities regulate the location of utility assets, including natural gas pipelines and electric lines. Sempra Energy's other business units are also regulated by the FERC, various state commissions, local governmental entities, and various similar authorities in countries other than the United States.

EXECUTIVE SUMMARY

BUSINESS STRATEGY

Our ongoing focus is to enhance shareholder value and meet customer needs by sustaining the financial strength, operational flexibility and skilled workforce needed to succeed in rapidly changing market conditions. To accomplish these goals, we evaluate market opportunities with our extensive industry expertise combined with rigorous risk management.

The key components of our strategy include the following:

- § Continue investment in North American natural gas infrastructure and the Sempra Utilities;
- § Expand our commodities-marketing business with reduced risk through our joint venture with RBS;
- § Focus on renewable-energy development in both the Sempra Utilities and Sempra Global; and
- § Continue the Sempra Utilities' long-term energy plan that encompasses a balance of energy conservation, renewable resources, power plants and transmission lines.

As we execute our strategy, we remain focused on the escalating concerns about global warming and the future regulation of greenhouse gases. Because natural gas is the cleanest of all fossil fuels, we expect it will play a critical role as a bridge to a "greener" future as renewable sources, such as solar, wind and biomass, become a growing part of North America's energy mix. Our power-generating facilities at Sempra Generation and SDG&E employ the latest clean-burning natural gas technology to keep emissions low. In addition, our utilities have been recognized nationally for their leadership in energy efficiency, and SDG&E is working aggressively to contract for new renewable resources. Upon completion, SDG&E's Sunrise Powerlink will serve as a key transmission gateway to import energy from renewable sources into the San Diego region.

KEY ISSUES IN 2008

Below are the key issues that affected our business in 2008; some of these issues may continue to affect our results in the future. Each issue includes the page number you may reference for additional details:

- § We entered into a joint venture creating RBS Sempra Commodities (116).
- § We completed a \$1 billion common stock repurchase program (166).
- § We increased quarterly dividends on our common shares to \$0.35 per share (\$1.40 annually) (28).
- § The Sempra Utilities completed the 2008 General Rate Case with the CPUC which set rates for 2008 through 2011 effective January 1, 2008 (169).
- § The CPUC approved SDG&E's proposed Sunrise Powerlink electric transmission line (167).
- § We acquired EnergySouth (117).

- § Sempra LNG's Energía Costa Azul LNG receipt terminal began commercial operations in May 2008 (6).
- § Sempra Pipelines & Storage completed the expansion of its pipeline system in Mexico, which connects to the Energía Costa Azul LNG receipt terminal (6).
- § The Rockies Express-West pipeline began full-service operations in May 2008 (6).
- § Construction began on the Rockies Express-East pipeline in July 2008 (6).
- § We completed our first solar energy project, a 10-MW photovoltaic power-generation facility and the largest operational thin-film solar power project in North America (44).
- § SDG&E completed the initial installation of 4,500 advanced meters and is on schedule to complete the full installation of 1.4 million electric meters and 900,000 natural gas meters by the end of 2011 (172).
- § SoCalGas requested approval from the CPUC to upgrade approximately 6 million natural gas meters with advanced metering infrastructure at an estimated cost of \$1.1 billion (172).
- § There was increased litigation and investigation related to the 2007 California wildfires (173).

RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

- § Overall results of our operations and factors affecting those results
- § Our business unit results
- § Significant changes in revenues, costs and earnings between periods

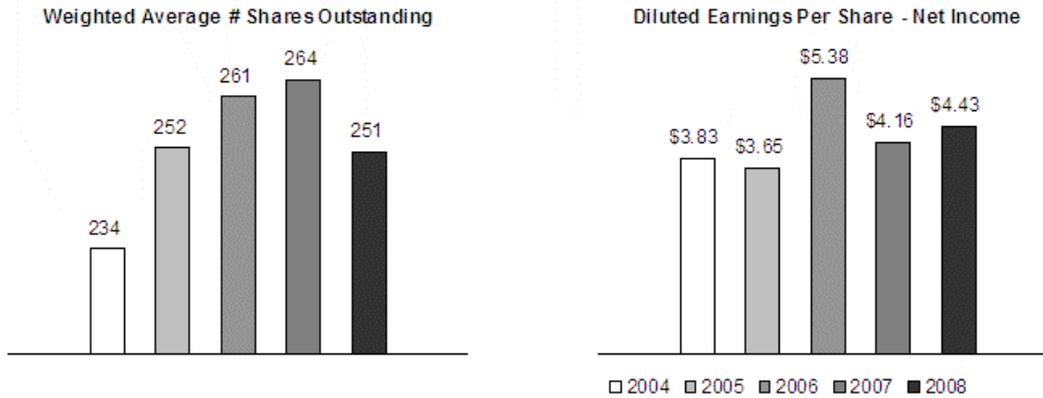
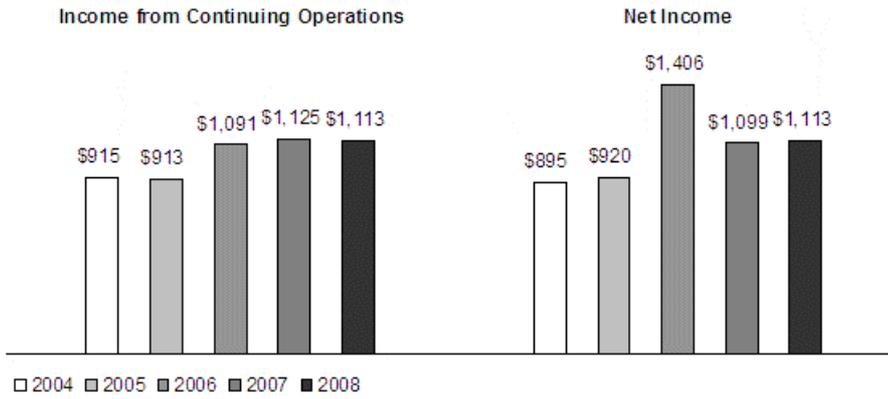
OVERALL RESULTS OF OPERATIONS OF SEMPRA ENERGY AND FACTORS AFFECTING THE RESULTS

The graphs below show our overall operations from 2004 to 2008. Our 2008 income from continuing operations decreased due to

- § lower earnings at Sempra Commodities due to our reduced ownership interest in the business; and
- § higher net losses at Parent and Other, **offset by**
- § improved results at the Sempra Utilities, Sempra Generation and Sempra Pipelines & Storage.

Our net income in 2007 included losses from discontinued operations of \$26 million.

Diluted earnings per share increased by \$0.27 per share, primarily as a result of the reduction in shares outstanding from our \$1 billion share repurchase and increased net income. The impact from the share repurchase was a positive \$0.20 per share.

OVERALL OPERATIONS OF SEMPRA ENERGY FROM 2004 TO 2008*(Dollars and shares in millions, except per share amounts)*

Our income from continuing operations increased in 2007 due to higher earnings at SDG&E. Also, results in 2006 included a \$221 million after-tax impairment of Sempra Pipelines & Storage's Argentine investments, offset by a \$204 million after-tax gain in 2006 from Sempra Generation's sale of its investment in Topaz Power Partners (Topaz). Our net income decreased in 2007 because our results for 2006 included \$315 million in after-tax income from discontinued operations primarily due to asset sales. We discuss these asset sales in more detail in Note 5 of the Notes to Consolidated Financial Statements.

The following table shows our net income (loss) by business unit, which we discuss below in "Business Unit Results."

SEMPRA ENERGY NET INCOME (LOSS) BY BUSINESS UNIT 2006-2008							
<i>(Dollars in millions)</i>							
	Years ended December 31,						
	2008		2007		2006		
Sempra Utilities:							
San Diego Gas & Electric Company*	\$ 339	31 %	\$ 283	25 %	\$ 237	17 %	
Southern California Gas Company*	244	22	230	21	223	16	
Sempra Global:							
Sempra Commodities**	345	31	499	45	504	36	
Sempra Generation	222	20	162	15	375	27	
Sempra Pipelines & Storage	106	9	64	6	(165)	(12)	
Sempra LNG	(46)	(4)	(46)	(4)	(42)	(3)	
Parent and other***	(97)	(9)	(67)	(6)	(41)	(3)	
Income from continuing operations	1,113	100	1,125	102	1,091	78	
Discontinued operations, net of income tax	--	--	(26)	(2)	315	22	
Consolidated net income	\$ 1,113	100 %	\$ 1,099	100 %	\$ 1,406	100 %	

* After preferred dividends.

** Includes our portion of RBS Sempra Commodities' joint venture earnings since the formation of the joint venture on April 1, 2008, and 100% of the commodities-marketing businesses prior to April 1, 2008. Also includes the operating results of Sempra Rockies Marketing, as well as interest, income taxes, cost allocations and other items associated with the joint venture.

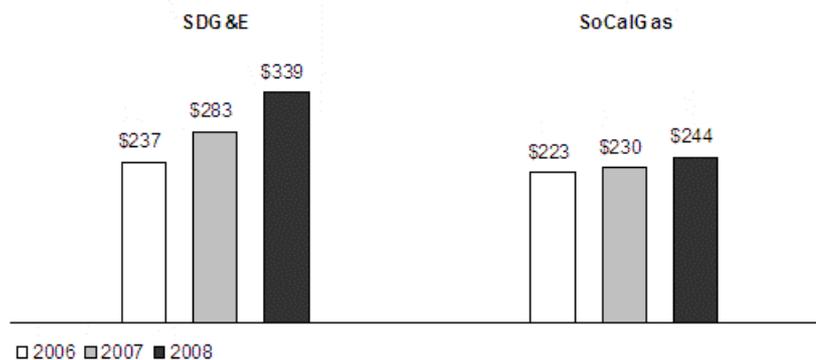
*** Includes after-tax interest expense (\$85 million in 2008, \$82 million in 2007 and \$101 million in 2006), intercompany eliminations recorded in consolidation and certain corporate costs incurred at Sempra Global.

BUSINESS UNIT RESULTS

The following section is a discussion of net income by Sempra Energy business unit, as it appears in the table above.

NET INCOME BY BUSINESS UNIT – SEMPRA UTILITIES

(Dollars in millions)



SDG&E

Our SDG&E business unit recorded net income of:

- § \$339 million in 2008 (\$344 million before preferred dividends)
- § \$283 million in 2007 (\$288 million before preferred dividends)
- § \$237 million in 2006 (\$242 million before preferred dividends)

In 2008, the increase of \$56 million (20%) was due to

- § \$62 million increased CPUC authorized margin in excess of higher operation and maintenance expenses;
- § \$14 million favorable effect from lower income tax rates on current operating activity in 2008 from an increase in tax deductions, as we discuss in "Income Taxes" below;
- § \$8 million higher regulatory awards in 2008; and
- § \$6 million higher electric transmission earnings in 2008 due to a higher rate base; **offset by**
- § \$19 million lower favorable resolution of regulatory matters in 2008 (\$7 million in 2008 compared to \$26 million in 2007); and
- § \$18 million due to higher litigation expenses in 2008 (\$25 million in 2008 compared to \$7 million in 2007).

The increase in 2007 of \$46 million (19%) was due to

- § \$15 million higher electric transmission earnings due to a higher rate base;
- § \$7 million due to the Palomar electric generation facility operating for twelve months in 2007 as compared to nine months in 2006;
- § \$18 million higher favorable resolution of prior years' income tax issues in 2007; and
- § \$26 million from the resolution of a regulatory item associated with the disposition of a power plant in a prior year.

These increases in 2007 were **offset by** the favorable resolution of regulatory items recorded in 2006, including:

- § \$13 million resolution of a prior-year cost recovery issue
- § \$8 million due to CPUC authorization of retroactive recovery on SONGS revenues related to a computational error in the 2004 Cost of Service
- § \$4 million due to FERC approval to recover prior-year Independent System Operator (ISO) charges in 2006

SoCalGas

Our SoCalGas business unit recorded net income of:

- § \$244 million in 2008 (\$245 million before preferred dividends)
- § \$230 million in 2007 (\$231 million before preferred dividends)
- § \$223 million in 2006 (\$224 million before preferred dividends)

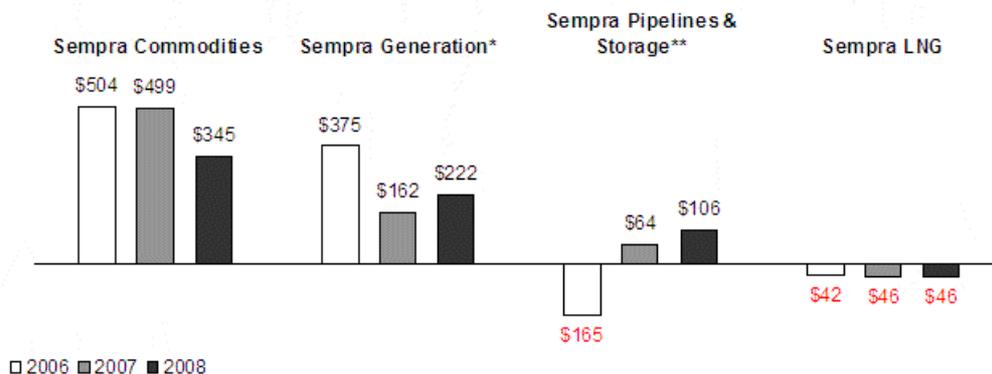
In 2008, the increase of \$14 million (6%) was due to

- § \$18 million due to a lower effective tax rate, as we discuss in "Income Taxes" below;
- § \$7 million favorable resolution of a regulatory matter in 2008;
- § \$7 million from increased CPUC authorized margin in excess of higher operation and maintenance expenses; and
- § \$3 million higher regulatory awards (\$9 million in 2008 compared to \$6 million in 2007), **offset by**
- § \$8 million increase in litigation expenses;

§ \$7 million lower noncore natural gas storage revenue in 2008 due to the new earnings sharing mechanism in effect for 2008 associated with the 2008 Biennial Cost Allocation Proceeding (BCAP) decision (\$9 million in 2008 compared to \$16 million in 2007); and
 § \$5 million higher bad debt expense in 2008.

The increase of \$7 million (3%) in 2007 was due primarily to
 § \$9 million higher authorized base margins, net of higher operation and maintenance expenses; and
 § \$10 million lower income tax expense due to a lower effective tax rate in 2007, **offset by**
 § \$7 million from the favorable resolution of a natural gas royalty matter in 2006.

NET INCOME (LOSS) BY BUSINESS UNIT – SEMPRA GLOBAL
 (Dollars in millions)



* 2006 included \$204 million gain from the sale of Topaz power plants.

** 2006 included \$221 million of impairment losses from Argentine investments.

Sempra Commodities

Our Sempra Commodities business unit recorded net income of:

- § \$345 million in 2008
- § \$499 million in 2007
- § \$504 million in 2006

Results for the second through the fourth quarters of 2008 primarily represent our equity earnings from RBS Sempra Commodities, formed on April 1, 2008, as well as other items discussed below. Results for 2006, 2007 and the first quarter of 2008 represent 100% of the commodities-marketing businesses' earnings until the formation of the joint venture.

The decrease in 2008 of \$154 million (31%) was due to our decreased ownership interest in the business, offset by a \$67 million gain on the transaction with RBS.

The decrease in 2007 of \$5 million (1%) was due to

- § \$19 million net income effect of an increase in reserves related to energy crisis litigation;
- § \$25 million reduction due to the phase-out of synthetic fuels tax credits; and
- § decreased earnings in the natural gas market, largely **offset by**
- § increased earnings, primarily for metals and power;

§ \$32 million recorded in 2007 in the power product line margin representing the value of preferred stock received for services rendered; and
§ \$18 million gain (after related costs) on the sale of equity method investments in 2007.

A portion of the decrease in earnings in 2007 was also the result of
§ earnings variability associated with certain commodity inventories; and
§ storage and transportation capacity contracts that were not being marked to market although the corresponding hedges qualified as derivative instruments and were marked to market.

Sempra Generation

Sempra Generation recorded net income of:

§ \$222 million in 2008
§ \$162 million in 2007
§ \$375 million in 2006

The increase in 2008 of \$60 million (37%) was due to
§ \$37 million higher earnings primarily due to plant scheduled major maintenance and associated down time in 2007;
§ \$16 million lower income tax expense related to Mexican currency translation and inflation adjustments; and
§ \$9 million lower income tax expense due to tax credits on Sempra Generation's solar generating facility.

The decrease of \$213 million (57%) in 2007 was due to the following in 2006:

§ \$204 million gain from the sale of the Topaz power plants;
§ \$6 million of Topaz operational earnings prior to the sale; and
§ \$16 million of earnings related to construction of the Palomar generating facility for SDG&E, **offset by**
§ \$18 million of litigation expense primarily related to the April 2006 DWR arbitration decision (discussed in Note 16 of the Notes to Consolidated Financial Statements).

Sempra Pipelines & Storage

Our Sempra Pipelines & Storage business unit recorded net income (loss) of:

§ \$106 million in 2008
§ \$64 million in 2007
§ \$(165) million in 2006

The increase of \$42 million (66%) in 2008 was due to:

§ \$30 million from Rockies Express-West, which began operations in the first quarter of 2008
§ \$18 million of higher earnings from the commencement of LNG-related pipeline operations in Mexico in the second quarter of 2008

In 2006, Sempra Pipelines & Storage recorded a \$221 million impairment loss associated with the decision to sell its Argentine investments and \$24 million of income tax expense related to repatriation of foreign earnings.

Sempra LNG

Sempra LNG recorded net losses of:

§ \$(46) million in 2008

§ \$(46) million in 2007

§ \$(42) million in 2006

Although net loss remained unchanged in 2008, the current year included the following items compared to 2007:

§ \$15 million lower mark-to-market losses related to a natural gas marketing agreement with RBS Sempra Commodities; and

§ a \$10 million after-tax cash payment received for the early termination of a capacity agreement with Merrill Lynch Commodities Inc. for the Cameron LNG receipt terminal; **offset by**

§ \$22 million higher general and administrative and operating expenses, including \$13 million of costs for LNG supplies for the Energía Costa Azul LNG receipt terminal.

The increased loss in 2007 was due to a \$2 million increase in mark-to-market loss related to a natural gas marketing agreement with Sempra Commodities and higher development and general and administrative expenses.

Parent and Other

Net losses for Parent and Other were

§ \$(97) million in 2008

§ \$(67) million in 2007

§ \$(41) million in 2006

The increase in net loss in 2008 of \$30 million (45%) was primarily due to

§ \$23 million of investment losses in 2008 compared to \$6 million of gains in 2007 on dedicated assets in support of our executive retirement and deferred compensation plans due to the market declines in 2008. This amount is net of the reduction in deferred compensation liability associated with the investments;

§ \$14 million gain from interest-rate swaps in 2007; and

§ \$8 million Mexican peso exchange losses, net of lower Mexican currency translation and inflation tax adjustments; **offset by**

§ \$13 million lower income tax expense primarily from the higher favorable resolution of prior years' income tax issues in 2008; and

§ \$10 million lower interest expense related to litigation reserves in 2008.

The increase in net loss in 2007 of \$26 million (63%) was primarily due to

§ \$38 million favorable resolution of a state income tax matter in 2006;

§ \$12 million for contributions to fund the newly-formed Sempra Energy Foundation (a private charitable foundation) in 2007; and

§ \$8 million in interest income related to an insurance claim in 2006, **offset by**

§ \$26 million lower net interest expense in 2007 primarily due to the 2006 Sempra Generation asset sales; and

§ \$14 million net gain from interest-rate swaps.

CHANGES IN REVENUES, COSTS AND EARNINGS

This section contains a discussion of the differences between periods in the specific line items of the Statements of Consolidated Income for Sempra Energy, SDG&E, PE and SoCalGas.

Sempra Utilities Revenues

Sempra Utilities revenues are comprised of natural gas revenues at SDG&E and SoCalGas, and electric revenues at SDG&E. Intercompany revenues included in the separate revenues of each utility are eliminated in the Sempra Energy Statements of Consolidated Income.

The current regulatory framework permits the cost of natural gas purchased for core customers (primarily residential and small commercial and industrial customers) to be passed on to customers substantially as incurred. However, SoCalGas' Gas Cost Incentive Mechanism (GCIM) provides SoCalGas the opportunity to share in the savings and/or costs from buying natural gas for its core customers at prices below or above market-based monthly benchmarks. The mechanism permits full recovery of costs incurred when average purchase costs are within a price range around a monthly benchmark price. Any higher costs or savings realized outside this range are shared between the core customers and SoCalGas. Through March 31, 2008, when SoCalGas assumed the purchasing for SDG&E's core customer natural gas requirements on a combined portfolio basis, SDG&E had a similar incentive mechanism that allowed cost sharing. We provide further discussion in Notes 1 and 15 of the Notes to Consolidated Financial Statements.

Sempra Utilities: Natural Gas Revenues and Cost of Natural Gas

The tables below show natural gas revenues for Sempra Energy, SDG&E and SoCalGas. The Sempra Energy amounts reflect SDG&E and SoCalGas revenues, net of intercompany transactions. Because the cost of natural gas is recovered in rates, changes in the cost are reflected in the changes in revenues.

SEMPRA ENERGY CONSOLIDATED: NATURAL GAS SALES, TRANSPORTATION AND EXCHANGE 2006-2008 <i>(Volumes in billion cubic feet, dollars in millions)</i>						
Customer Class	Natural Gas Sales		Transportation and Exchange		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
2008:						
Residential	271	\$ 3,385	1	\$ 4	272	\$ 3,389
Commercial and industrial	120	1,318	282	198	402	1,516
Electric generation plants	--	--	300	106	300	106
Wholesale	--	--	18	6	18	6
	391	\$ 4,703	601	\$ 314	992	5,017
Other revenues						146
Balancing accounts*						256
Total						\$ 5,419
2007:						
Residential	277	\$ 3,065	1	\$ 5	278	\$ 3,070
Commercial and industrial	127	1,159	282	215	409	1,374
Electric generation plants	--	1	264	112	264	113
Wholesale	--	--	19	8	19	8
	404	\$ 4,225	566	\$ 340	970	4,565
Other revenues						90
Balancing accounts*						214
Total						\$ 4,869
2006:						
Residential	278	\$ 3,124	1	\$ 5	279	\$ 3,129
Commercial and industrial	124	1,157	276	223	400	1,380
Electric generation plants	--	2	248	118	248	120
Wholesale	--	--	21	8	21	8
	402	\$ 4,283	546	\$ 354	948	4,637
Other revenues						75
Balancing accounts*						51
Total						\$ 4,763

* We discuss balancing accounts and their effects in Note 1 of the Notes to Consolidated Financial Statements.

In 2008, our natural gas revenues increased by \$550 million (11%) to \$5.4 billion, and the cost of natural gas increased by \$481 million (17%) to \$3.2 billion. The increase in revenues was primarily due to

§ \$481 million increase in cost of natural gas resulting from higher natural gas prices;

§ \$27 million higher authorized base margin;

§ \$24 million due to revenue sharing in 2007 at SoCalGas. Effective with the adoption of the 2008 General Rate Case (GRC), the Sempra Utilities are no longer subject to the performance-based regulation that required this revenue sharing;

§ \$12 million favorable resolution of a regulatory matter in 2008, **offset by**

§ \$11 million lower noncore natural gas storage revenue in 2008.

In 2007, our natural gas revenues increased by \$106 million (2%) to \$4.9 billion. The cost of natural gas remained unchanged at \$2.8 billion. The increase in revenues in 2007 was primarily due to a \$71 million increase in authorized base margin. In addition, our revenue increased by \$34 million from recoverable expenses that are fully offset in operation and maintenance expenses.

Our weighted average cost (including transportation charges) per million British thermal units (MMBtu) of natural gas was \$7.78 in 2008, \$6.49 in 2007 and \$6.54 in 2006.

SDG&E: NATURAL GAS SALES, TRANSPORTATION AND EXCHANGE 2006-2008						
<i>(Volumes in billion cubic feet, dollars in millions)</i>						
Customer Class	Natural Gas Sales		Transportation and Exchange		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
2008:						
Residential	31	\$ 428	--	\$ --	31	\$ 428
Commercial and industrial	16	174	7	9	23	183
Electric generation plants	--	--	68	26	68	26
	47	\$ 602	75	\$ 35	122	637
Other revenues						26
Balancing accounts						26
Total*						\$ 689
2007:						
Residential	32	\$ 405	--	\$ --	32	\$ 405
Commercial and industrial	16	160	5	7	21	167
Electric generation plants	--	1	60	40	60	41
	48	\$ 566	65	\$ 47	113	613
Other revenues						13
Balancing accounts						32
Total*						\$ 658
2006:						
Residential	31	\$ 397	--	\$ --	31	\$ 397
Commercial and industrial	17	169	5	7	22	176
Electric generation plants	--	2	65	44	65	46
	48	\$ 568	70	\$ 51	118	619
Other revenues						15
Balancing accounts						4
Total*						\$ 638

* Includes sales to affiliates of \$2 million in 2008, \$3 million in 2007 and \$4 million in 2006.

In 2008, SDG&E's natural gas revenues increased by \$31 million (5%) to \$689 million, and the cost of natural gas increased by \$23 million (6%) to \$415 million. The increases were primarily due to higher natural gas prices. In 2007, SDG&E's natural gas revenues increased by \$20 million (3%) to \$658 million, and the cost of natural gas increased \$12 million (3%) to \$392 million.

SDG&E's weighted average cost (including transportation charges) per MMBtu of natural gas was \$7.78 in 2008, \$7.17 in 2007 and \$6.94 in 2006.

SO CAL GAS: NATURAL GAS SALES, TRANSPORTATION AND EXCHANGE 2006-2008
(Volumes in billion cubic feet, dollars in millions)

Customer Class	Natural Gas Sales		Transportation and Exchange		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
2008:						
Residential	240	\$ 2,957	1	\$ 4	241	\$ 2,961
Commercial and industrial	104	1,144	275	189	379	1,333
Electric generation plants	--	--	232	80	232	80
Wholesale	--	--	146	22	146	22
	<u>344</u>	<u>\$ 4,101</u>	<u>654</u>	<u>\$ 295</u>	<u>998</u>	<u>4,396</u>
Other revenues						142
Balancing accounts						<u>230</u>
Total*						\$ 4,768
2007:						
Residential	245	\$ 2,660	1	\$ 5	246	\$ 2,665
Commercial and industrial	111	999	277	208	388	1,207
Electric generation plants	--	--	204	72	204	72
Wholesale	--	--	142	59	142	59
	<u>356</u>	<u>\$ 3,659</u>	<u>624</u>	<u>\$ 344</u>	<u>980</u>	<u>4,003</u>
Other revenues						97
Balancing accounts						<u>182</u>
Total*						\$ 4,282
2006:						
Residential	247	\$ 2,727	1	\$ 5	248	\$ 2,732
Commercial and industrial	107	988	272	217	379	1,205
Electric generation plants	--	--	183	74	183	74
Wholesale	--	--	136	44	136	44
	<u>354</u>	<u>\$ 3,715</u>	<u>592</u>	<u>\$ 340</u>	<u>946</u>	<u>4,055</u>
Other revenues						79
Balancing accounts						<u>47</u>
Total*						\$ 4,181

* Includes sales to affiliates of \$36 million in 2008, \$68 million in 2007 and \$52 million in 2006.

In 2008, SoCalGas' natural gas revenues increased by \$486 million (11%) to \$4.8 billion, and the cost of natural gas increased by \$421 million (17%) to \$2.8 billion. The increases in 2008 were primarily due to

§ \$421 million increase in cost of natural gas resulting from higher natural gas prices;

§ \$24 million higher authorized base margin;

§ \$24 million due to revenue sharing in 2007. Effective with the adoption of the 2008 GRC, SoCalGas is no longer subject to the performance-based regulation that required this revenue sharing;

§ \$12 million favorable resolution of a regulatory matter in 2008; and

§ \$6 million higher regulatory awards, **offset by**

§ \$11 million lower non-core natural gas storage revenue in 2008.

In 2007, natural gas revenues increased by \$101 million (2%) to \$4.3 billion. The cost of natural gas remained constant at \$2.4 billion. The increase in revenues was primarily due to a \$63 million increase in authorized base margin. In addition, revenues increased by \$41 million for recoverable expenses that are fully offset in operation and maintenance expenses.

SoCalGas' weighted average cost (including transportation charges) per MMBtu of natural gas was \$7.78 in 2008, \$6.39 in 2007 and \$6.49 in 2006.

Sempra Utilities: Electric Revenues and Cost of Electric Fuel and Purchased Power

The table below shows electric revenues for Sempra Energy and SDG&E. Sempra Energy amounts are net of intercompany transactions. Because the cost of electricity is substantially recovered in rates, changes in the cost are reflected in the changes in revenues.

ELECTRIC DISTRIBUTION AND TRANSMISSION 2006-2008						
<i>(Volumes in millions of kilowatt-hours, dollars in millions)</i>						
Customer Class	2008		2007		2006	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Sempra Energy Consolidated:						
Residential	7,698	\$ 976	7,520	\$ 980	7,501	\$ 910
Commercial	7,254	843	7,154	852	6,983	723
Industrial	2,340	214	2,264	228	2,250	180
Direct access	3,235	101	3,220	118	3,390	133
Street and highway lighting	106	12	107	12	102	10
	20,633	2,146	20,265	2,190	20,226	1,956
Other revenues		145		161		132
Balancing accounts		262		(167)		48
Total		\$ 2,553		\$ 2,184		\$ 2,136
SDG&E:						
Residential	7,698	\$ 976	7,520	\$ 980	7,501	\$ 910
Commercial	7,254	843	7,154	852	6,983	723
Industrial	2,351	215	2,275	229	2,261	181
Direct access	3,235	101	3,220	118	3,390	133
Street and highway lighting	106	12	107	12	102	10
	20,644	2,147	20,276	2,191	20,237	1,957
Other revenues		153		170		142
Balancing accounts		262		(167)		48
Total*		\$ 2,562		\$ 2,194		\$ 2,147

* Includes sales to affiliates of \$9 million in 2008, \$10 million in 2007 and \$11 million in 2006.

In 2008, electric revenues increased by \$369 million (17%) at Sempra Energy and \$368 million (17%) at SDG&E to \$2.6 billion, and the cost of electric fuel and purchased power increased by \$201 million (29%) to \$900 million. The increased revenues in 2008 were primarily due to

§ \$201 million increase in cost of electric fuel and purchased power resulting from an increase in power procurement costs both from higher prices and from volumes;

§ \$98 million higher authorized base margin on electric distribution;

§ \$55 million higher recoverable expenses that are fully offset in operation and maintenance expenses;

§ \$17 million higher authorized transmission and electric generation margins; and

§ \$12 million higher regulatory awards, **offset by**

§ \$22 million from the favorable resolution of a regulatory matter in 2007.

In 2007, electric revenues increased by \$48 million (2%) at Sempra Energy and \$47 million (2%) at SDG&E to \$2.2 billion, and the cost of electric fuel and purchased power decreased by \$22 million (3%) to \$699 million in 2007. The increased revenues in 2007 included

§ \$33 million from higher authorized transmission and electric generation margins;

§ \$22 million from the favorable resolution of a regulatory matter;

§ \$24 million increase in authorized base margin on electric distribution; and

§ \$12 million of higher revenues for recoverable expenses, which are fully offset in operation and maintenance expenses, **offset by**

§ \$20 million from the favorable resolution of a prior-year cost recovery issue in 2006; and
 § \$22 million lower recovery of electric fuel and purchased power costs in 2007.

We do not include in the Statements of Consolidated Income the commodity costs (and the revenues to recover those costs) associated with long-term contracts that are allocated to SDG&E by the California DWR. However, we do include the associated volumes and distribution revenues in the table above. We provide further discussion of these contracts in Note 1 of the Notes to Consolidated Financial Statements.

Sempra Global and Parent Revenues and Cost of Sales

The table below shows Sempra Global and Parent's Revenues and Cost of Sales.

SEMPRA GLOBAL AND PARENT REVENUES AND COST OF SALES						
<i>(Dollars in millions)</i>						
	Years ended December 31,					
	2008		2007		2006	
REVENUES						
Sempra Commodities	\$ 500	18 %	\$ 2,674	61 %	\$ 3,256	67 %
Sempra Generation	1,784	64	1,476	34	1,454	30
Sempra Pipelines & Storage	457	16	314	7	295	6
Sempra LNG	74	3	(22)	(1)	(21)	(1)
Parent and other*	(29)	(1)	(57)	(1)	(122)	(2)
Total revenues	\$ 2,786	100 %	\$ 4,385	100 %	\$ 4,862	100 %
COST OF SALES**						
Sempra Generation	\$ 1,304	78 %	\$ 1,058	81 %	\$ 996	82 %
Sempra Pipelines & Storage	348	21	255	20	233	19
Sempra LNG	47	3	--	--	--	--
Parent and other*	(28)	(2)	(11)	(1)	(8)	(1)
Total cost of natural gas, electric fuel and purchased power	\$ 1,671	100 %	\$ 1,302	100 %	\$ 1,221	100 %
Sempra Commodities	\$ 178	98 %	\$ 988	100 %	\$ 1,468	100 %
Sempra LNG	5	3	--	--	--	--
Sempra Generation	1	--	1	--	23	2
Parent and other*	(2)	(1)	(1)	--	(23)	(2)
Total other cost of sales	\$ 182	100 %	\$ 988	100 %	\$ 1,468	100 %

* Includes eliminations of intercompany activity.

** Excludes depreciation, which is shown separately on the Statements of Consolidated Income.

In 2008, our Sempra Global and Parent revenues decreased by \$1.6 billion (36%) to \$2.8 billion. The decrease included
 § \$2.2 billion lower revenues from Sempra Commodities. Revenues in 2008 and 2007 included \$500 million and \$2.7 billion, respectively, for Sempra Commodities. These revenues were primarily for periods prior to the formation of RBS Sempra Commodities, **offset by**
 § \$308 million higher revenues at Sempra Generation, primarily due to increased power sales and favorable natural gas prices and merchant sales activity;
 § \$143 million higher revenues at Sempra Pipelines & Storage, primarily from Mexican pipeline operations and the consolidation of EnergySouth starting in October 2008; and
 § \$96 million higher revenues at Sempra LNG, including \$74 million from the commencement of commercial operations at its Energía Costa Azul LNG receipt terminal in May 2008 and \$22 million lower mark-to-market losses related to a natural gas marketing agreement with RBS Sempra Commodities.

Our cost of natural gas, electric fuel and purchased power increased by \$369 million (28%) to \$1.7 billion in 2008. The increase was primarily associated with the higher revenues at Sempra Generation, Sempra Pipelines & Storage and Sempra LNG.

Our other cost of sales decreased \$806 million (82%) to \$182 million in 2008, primarily due to our reduced interest in our commodities-marketing businesses. Other cost of sales included \$178 million in 2008 and \$988 million in 2007 for Sempra Commodities, primarily for periods prior to the formation of RBS Sempra Commodities.

In 2007, our Sempra Global and Parent revenues decreased by \$477 million (10%) to \$4.4 billion. The cost of natural gas, electric fuel and purchased power increased \$81 million (7%) to \$1.3 billion, while other cost of sales decreased \$480 million (33%) to \$988 million. The decreases in our revenues and other cost of sales were primarily due to trading activity at Sempra Commodities, resulting primarily from less volatility in the natural gas markets. These decreases were partially offset by higher Sempra Generation revenues and related costs. The increases at Sempra Generation were primarily due to higher merchant customer revenues as a result of increased sales volumes and higher prices.

Operation and Maintenance

In the table below, we provide a breakdown of our business units' operation and maintenance expenses.

OPERATION AND MAINTENANCE 2006-2008						
<i>(Dollars in millions)</i>						
	Years ended December 31,					
	2008		2007		2006	
Sempra Utilities*:						
SDG&E	\$ 913	36%	\$ 807	27%	\$ 777	27%
SoCalGas	1,078	43	1,021	34	949	33
Sempra Global:						
Sempra Commodities	248	10	918	30	879	31
Sempra Generation	97	4	103	3	134	5
Sempra Pipelines & Storage	62	2	42	1	40	1
Sempra LNG	77	3	44	2	39	1
Parent and other**	61	2	97	3	61	2
Total operation and maintenance	\$ 2,536	100%	\$ 3,032	100%	\$ 2,879	100%

* Includes recoverable expenses, which are fully offset in revenues.

** Includes intercompany eliminations recorded in consolidation.

Sempra Energy

In 2008, our operation and maintenance expenses decreased due to \$670 million lower expenses from our reduced interest in our commodities-marketing businesses, offset by higher recoverable expenses (offset in revenues), litigation expense and other operational costs at the Sempra Utilities.

In 2007, our operation and maintenance expenses increased primarily due to higher recoverable expenses and other operational costs at the Sempra Utilities.

SDG&E

In 2008, the increase in SDG&E operation and maintenance expenses was due to:

- § \$61 million higher recoverable expenses, including \$35 million increase in energy efficiency program expenses and \$16 million increase in electric transmission expenses
- § \$32 million higher litigation expense
- § \$13 million higher other operational costs

The increase in 2007 was due to \$23 million higher other operational costs, \$7 million higher litigation expense and \$5 million higher recoverable expenses, offset by \$5 million lower SONGS operating costs.

SoCalGas

In 2008, the increase in SoCalGas operation and maintenance expenses was due to:

- § \$41 million higher other operational costs, including \$13 million higher materials and supplies costs, \$10 million higher labor and employee benefits costs and \$8 million higher bad debt expense
- § \$13 million higher litigation expense
- § \$3 million higher recoverable expenses

In 2007, the increase in expenses was due to \$41 million higher recoverable expenses (offset in revenues), \$28 million higher other operational costs and \$3 million higher litigation expense.

Gains on Sale of Assets

Sempra Energy

Our net pretax gains on the sale of assets were

- § \$114 million in 2008
- § \$6 million in 2007
- § \$1 million in 2006

The gains in 2008 included \$109 million related to the RBS Sempra Commodities transaction, which is discussed in Note 3 of the Notes to Consolidated Financial Statements.

Equity Earnings (Losses) Before Income Taxes

Sempra Energy

In 2008, the earnings from our investment in the newly-formed RBS Sempra Commodities were \$383 million. We provide additional information about this investment's earnings in Note 4 of the Notes to Consolidated Financial Statements.

Equity earnings (losses) before income taxes from our other equity method investments were

- § \$37 million in 2008
- § \$(9) million in 2007
- § \$338 million in 2006

The increase in 2008 was primarily due to the start of operations of Rockies Express-West in the first quarter of 2008. In 2006, these earnings included a \$344 million pretax gain on the sale of power plants by Topaz, a joint venture that was owned 50% by Sempra Generation. Further details about our equity method investments and the Topaz sale are provided in Note 4 of the Notes to Consolidated Financial Statements.

Other Income (Expense), Net

Sempra Energy

Other income (expense), net, was

- § \$(54) million in 2008
- § \$90 million in 2007
- § \$43 million in 2006

We include here the allowance for equity funds used during construction, regulatory interest and other sundry amounts. The increase in other expense, net, in 2008 was primarily due to

- § \$80 million increase in losses from investments related to our executive retirement and deferred compensation plans in 2008 (\$53 million in losses in 2008 compared to \$27 million in gains in 2007);

§ \$57 million in Mexican peso exchange losses in 2008 (largely offset by foreign tax benefits arising from fluctuations in the U.S. dollar/Mexican peso exchange rate and inflation); and

§ \$24 million gain from interest-rate swaps in 2007, **offset by**

§ \$16 million cash payment received for the early termination of a capacity agreement for the Cameron LNG receipt terminal in 2008.

In 2007, other income, net, included a \$24 million net gain from interest-rate swaps. We provide further discussion of the interest-rate swaps related to Sempra LNG's Energía Costa Azul project in Note 11 of the Notes to Consolidated Financial Statements.

SDG&E

Other income, net, was

§ \$25 million in 2008

§ \$11 million in 2007

§ \$8 million in 2006

The increase in 2008 was primarily due to a \$10 million increase in allowance for equity funds used during construction. Further details of the components of other income, net, appear in Note 1 of the Notes to Consolidated Financial Statements.

Interest Income

The table below shows the interest income for Sempra Energy, SDG&E, PE and SoCalGas.

	INTEREST INCOME 2006-2008		
	<i>(Dollars in millions)</i>		
	Years ended December 31,		
	2008	2007	2006
Sempra Energy Consolidated	\$ 45	\$ 72	\$ 109
SDG&E	6	8	6
PE	22	51	64
SoCalGas	11	27	29

In 2008, the decreases in interest income at Sempra Energy, PE and SoCalGas were primarily due to lower average short-term investment balances and lower interest rates in 2008. At Sempra Energy, short-term investment balances were higher in 2007 due to asset sales in 2006.

The decrease in Sempra Energy's interest income in 2007 was due to these events that occurred in 2006:

§ \$12 million from the favorable resolution of a state income tax matter

§ \$13 million from the resolution of an insurance claim at PE related to a quasi-reorganization issue (discussed in Note 1 of the Notes to Consolidated Financial Statements)

§ \$6 million from an income tax audit settlement at SoCalGas

Interest Expense

The table below shows the interest expense for Sempra Energy, SDG&E, PE and SoCalGas.

	INTEREST EXPENSE 2006-2008		
	<i>(Dollars in millions)</i>		
	Years ended December 31,		
	2008	2007	2006
Sempra Energy Consolidated	\$ 253	\$ 272	\$ 351
SDG&E	96	96	97
PE	65	76	76
SoCalGas	62	70	70

Sempra Energy

In 2008, the decrease was due to

§ \$18 million reduced interest expense related to energy crisis litigation reserves;

§ \$13 million lower other short-term debt interest;

§ \$30 million effect of the repayment of long-term debt in 2007 at Parent and Other; and

§ lower interest rates, **offset by**

§ \$35 million higher interest expense primarily from long-term debt issued by SDG&E in September 2007 and by Parent and Other in 2008; and

§ \$5 million net lower capitalized interest, including a reduction in interest expense at Sempra LNG due to the start of commercial operations at the Energía Costa Azul LNG receipt terminal in May 2008, offset by higher capitalized interest for Sempra Pipelines & Storage's projects.

The decrease in Sempra Energy's interest expense in 2007 was due to:

§ \$41 million higher capitalized interest at Sempra LNG and Sempra Pipelines & Storage

§ \$22 million lower interest expense due to repayment and early redemption of long-term debt primarily at Parent and Other

SDG&E

In 2008, \$10 million higher interest from long-term debt issued in September 2007 was partially offset by \$5 million lower short-term debt interest and \$3 million higher capitalized interest.

PE and SoCalGas

In 2008, the decrease in interest expense was primarily the result of lower interest rates.

Income Taxes

The table below shows the income tax expense and effective income tax rates for Sempra Energy, SDG&E, PE and SoCalGas.

	INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES 2006-2008					
	<i>(Dollars in millions)</i>					
	Years ended December 31,					
	2008		2007		2006	
	Income Tax Expense	Effective Tax Rate	Income Tax Expense	Effective Tax Rate	Income Tax Expense	Effective Tax Rate
Sempra Energy Consolidated	\$ 438	29 %	\$ 524	34 %	\$ 641	33 %
SDG&E	161	32	135	32	152	39
PE	141	36	165	41	186	44
SoCalGas	140	36	160	41	173	44

Sempra Energy

In 2008, the decrease in income tax expense was due to lower pretax income and a lower effective tax rate. The decrease in the effective tax rate was primarily due to:

- § higher favorable resolutions of prior years' income tax issues in 2008
- § lower income tax expense related to Mexican currency translation and inflation adjustments
- § larger tax deductions primarily at the Sempra Utilities related to the equity portion of AFUDC and self-developed software costs

In 2007, the decrease in income tax expense was primarily due to lower pretax income.

SDG&E

In 2008, the increase in income tax expense was due to higher pretax income, partially offset by an increase in tax deductions (primarily related to the equity portion of AFUDC and self-developed software costs) and higher favorable resolution of prior years' income tax issues (\$17 million in 2008 compared to \$16 million in 2007). Also, in 2007, the resolution of a regulatory matter resulted in pretax income of \$27 million and income tax of \$1 million. This reduced the 2007 effective tax rate by 2%. In 2007, the decrease in income tax expense compared to 2006 was primarily due to a lower effective tax rate resulting from higher favorable resolution of prior years' income tax issues and the 2007 regulatory reserve release. The decrease was partially offset by the effect of higher pretax income in 2007.

PE and SoCalGas

In 2008, the decrease in income tax expense was primarily due to lower pretax income, larger tax deductions (primarily for self-developed software costs), and higher favorable resolution of prior years' income tax issues in 2008, offset by a lower federal deduction for state taxes. In 2007, the decrease in income tax expense compared to 2006 was due to a lower effective tax rate and lower pretax income. The lower effective tax rate was due to a higher deduction for basis differences in fixed assets and a higher federal deduction for state taxes.

Equity Earnings (Losses), Net of Income Tax

Sempra Energy

Equity earnings (losses) of unconsolidated subsidiaries, net of income tax, were

- § \$63 million in 2008
- § \$99 million in 2007
- § \$(182) million in 2006

Equity earnings, net of income tax, were lower in 2008 due to a transaction in 2007. In February 2007, Sempra Commodities sold its interests in an equity method investment and a related cost-basis investment for cash and a 12.7-percent interest in a newly formed entity. The gain on this transaction was \$30 million. The 2006 amount included a \$221 million impairment loss associated with Sempra Pipelines & Storage's Argentine investments. We provide further discussion of our equity method investments in Note 4 of the Notes to Consolidated Financial Statements.

Discontinued Operations

Sempra Energy

Income (loss) from discontinued operations was

§ \$(26) million in 2007

§ \$315 million in 2006

The 2006 amount included \$351 million in gains from the disposal of Sempra Generation's

§ Twin Oaks Power plant,

§ Energy Services and Facilities Management businesses, and

§ Sempra Energy Production Company (SEPCO), its exploration and production subsidiary.

These gains were offset by \$42 million, primarily from an impairment loss related to Bangor Gas and Frontier Energy. We provide further discussion of discontinued operations in Note 5 of the Notes to Consolidated Financial Statements.

Net Income

We summarize variations in overall net income in "Overall Results of Operations of Sempra Energy and Factors Affecting the Results" above. We discuss variations in net income by business unit above in "Business Unit Results."

TRANSACTIONS WITH AFFILIATES

We provide information about our related party transactions in Note 1 of the Notes to Consolidated Financial Statements.

BOOK VALUE PER SHARE

Sempra Energy's book value per share, on the last day of each year, is listed below:

§ \$32.75 in 2008

§ \$31.93 in 2007

§ \$28.67 in 2006

The increases in 2008 and 2007 were primarily the result of comprehensive income exceeding dividends. The increase in 2008 book value per share was also due to the reduction in common stock from the share repurchase program in 2008.

CAPITAL RESOURCES AND LIQUIDITY

We expect our cash flows from operations to fund a substantial portion of our capital expenditures and dividends. In addition, we may meet our cash requirements through the issuance of short-term and long-term debt.

Significant events affecting cash flows in 2008 were

- § the formation of RBS Sempra Commodities
- § the repurchase of \$1 billion of Sempra Energy common stock
- § the acquisition of EnergySouth

We discuss these events in more detail later in this section.

Our committed lines of credit provide liquidity and support commercial paper. They expire in August 2011. At Sempra Energy, they are syndicated broadly among 20 different banks and at the Sempra Utilities, among 17 different banks. No single bank has greater than a 10.7 percent share in any agreement.

The table below shows the amount of available funds at year-end 2008:

AVAILABLE FUNDS AT YEAR-END 2008			
<i>(Dollars in millions)</i>			
	Sempra Energy Consolidated	SDG&E	PE / SoCalGas
Unrestricted cash and cash equivalents	\$ 331	\$ 19	\$ 206
Available unused credit	2,863	253*	453*

* Borrowings on the shared line of credit, discussed in Note 6 of the Notes to Consolidated Financial Statements, are limited to \$600 million for each utility and \$800 million in total. SDG&E's available funds reflect letters of credit outstanding of \$110 million and variable-rate demand notes outstanding of \$237 million supported by the line. SoCalGas' availability reflects the impact of SDG&E's use of the combined credit available on the line.

Sempra Energy

We believe that these available funds and cash flows from operations, distributions from equity method investments and security issuances, combined with current cash balances, will be adequate to:

- § finance capital expenditures
- § meet liquidity requirements
- § fund shareholder dividends
- § fund any new business acquisitions or start-ups

However, the recent global credit crisis has severely affected the availability and cost of both short-term and long-term financing. If cash flows from operations were to be significantly reduced or we were to be unable to borrow under acceptable terms, we would reduce or postpone discretionary capital expenditures and investments in new businesses. If these measures were necessary, they would primarily impact our Sempra Global businesses, as credit availability for the Sempra Utilities has not been significantly impacted by the credit crisis. Discretionary expenditures at Sempra Global would include projects that we have not yet made firm commitments to build, primarily renewable generation facilities. We do not expect to repurchase any common shares during 2009. We continuously monitor our ability to finance the needs of our operating, investing and financing activities in a manner consistent with our intention to maintain strong, investment-quality ratings.

We have significant investments in several trusts to provide for future payments of pensions, other postretirement benefits, executive retirement and deferred compensation, and nuclear decommissioning. Although all of our trust funds' investments are diversified and managed in compliance with all laws and regulations, the value of the

investments in these trusts declined significantly in 2008 due to a decrease in the equity market and volatility in the fixed income market. Although the asset values decreased in 2008, this has not affected the funds' abilities to make their required payments. At the Sempra Utilities, the impact of these market declines is generally recoverable in rates. However, future non-discretionary funding requirements for pension and other postretirement benefit plans will be increased.

On May 22, 2008, our board of directors approved an increase to our quarterly common stock dividend to \$0.35 per share (\$1.40 annually), an increase of \$0.03 per share (\$0.12 annually) from \$0.32 per share (\$1.28 annually) authorized in February 2008. Our target annual dividend payment ratio is 35 percent to 40 percent of net income.

On February 20, 2009, our board of directors approved an increase to our quarterly common stock dividend to \$0.39 per share (\$1.56 annually), an increase of \$0.04 per share (\$0.16 annually) or 11 percent.

We discuss our principal credit agreements more fully in Note 6 of the Notes to Consolidated Financial Statements.

Sempra Utilities

The Sempra Utilities expect that cash flows from operations and security issuances will continue to be adequate to meet utility capital expenditure requirements. As a result of SDG&E's projected capital expenditure program, SDG&E has elected to limit the payment of dividends on its common stock to Sempra Energy, and the level of future common dividends from SDG&E and SoCalGas may be affected during periods of increased capital expenditures. The level of future common dividends from PE is dependent upon common dividends paid by SoCalGas. In 2006, Sempra Energy made a capital contribution of \$200 million to SDG&E to assist in the purchase of the Palomar generating facility. Sempra Energy may make additional equity contributions to SDG&E or SoCalGas to support the Sempra Utilities' capital expenditure programs.

Sempra Commodities

On April 1, 2008, we completed the formation of RBS Sempra Commodities, a partnership to own and operate Sempra Energy's commodities-marketing businesses, which generally comprised the Sempra Commodities business unit. RBS is obligated to provide the joint venture with all growth capital, working-capital requirements and credit support. However, we are providing transitional back-up guarantees and credit support, some of which may continue for a prolonged period of time. RBS has fully indemnified us for any claims or losses in connection with these arrangements.

Our initial equity contribution to the partnership was \$1.6 billion, and RBS made an initial equity contribution of \$1.665 billion. As a result of the transaction, we received cash of approximately \$1.2 billion, net of our contribution. We account for our investment in the partnership under the equity method. RBS Sempra Commodities intends to distribute all of its net income on an annual basis, although the distributions are within the discretion of the board of directors of the partnership. In limited cases, the partnership may retain earnings allocable to the partners to replenish capital depleted through losses. We provide additional information about this transaction in Notes 3, 4 and 6 of the Notes to Consolidated Financial Statements.

Sempra Generation

Projects at Sempra Generation have been financed through a combination of operating cash flow, project financing, funds from the parent and external borrowings. Asset sales in 2006 provided funds to assist in financing company projects.

Sempra Generation's long-term power sale contracts may contain collateral requirements. The DWR contracts do not contain such requirements. The collateral arrangements require Sempra Generation and/or the counterparty to post cash, guarantees or letters of credit to the other party for exposure in excess of established thresholds. Sempra Generation may be required to provide collateral when market price movements adversely affect the counterparty's cost of replacement energy supplies if Sempra Generation fails to deliver the contracted amounts. Sempra Generation had no outstanding collateral requirements under such contracts at December 31, 2008 and 2007.

Sempra Pipelines & Storage

Sempra Pipelines & Storage is expected to require funding from the parent or from external sources to fund projects, including:

- § development and expansion of its natural gas storage projects
- § participation in the development of REX, a natural gas pipeline

Sempra LNG

Sempra LNG requires funding for its development of LNG receiving facilities. While our credit facilities and other Sempra Energy sources are expected to be adequate for these requirements, we may decide to use project financing if there is an advantage in doing so. As projects under construction are put in service, Sempra LNG is expected to provide operating cash flow for further development within Sempra Global.

CASH FLOWS FROM OPERATING ACTIVITIES

CASH PROVIDED BY OPERATING ACTIVITIES							
<i>(Dollars in millions)</i>							
	2008	2008 Change		2007	2007 Change		2006
Sempra Energy Consolidated	\$ 1,181	\$ (907)	(43) %	\$ 2,088	\$ 459	28 %	\$ 1,629
SDG&E	619	(41)	(6)	660	263	66	397
PE	572	81	16	491	(420)	(46)	911
SoCalGas	568	90	19	478	(395)	(45)	873

Sempra Energy

Cash provided by operating activities at Sempra Energy decreased in 2008 due to

- § a \$297 million decrease in income from continuing operations (adjusted for noncash items), of which \$383 million related to equity earnings from RBS Sempra Commodities;
- § a decrease of \$303 million in net trading assets in 2007 compared to a \$4 million increase in 2008 (prior to the sale of the commodities-marketing businesses to RBS Sempra Commodities);
- § a decrease in overcollected balancing accounts in 2008 compared to an increase in 2007, primarily at SDG&E; and
- § a decrease in accounts payable primarily due to accruals for higher maintenance and purchased power costs associated with the El Dorado outage at Sempra Generation at the end of 2007 and a decrease at Sempra Commodities in 2008 (prior to the sale of the commodities-marketing businesses to RBS Sempra Commodities); **offset by**
- § a decrease in accounts receivable, primarily at SoCalGas due to higher natural gas volumes in 2007 due to a colder winter in 2007 compared to 2008; and
- § \$329 million lower net income tax payments due to 2007 overpayments applied to 2008 taxes and higher refunds received in 2008 as compared to 2007.

The increase in cash provided by operating activities at Sempra Energy in 2007 was primarily due to a \$303 million decrease in net trading assets in 2007 compared to a \$543 million increase in 2006, and a \$190 million increase in income from continuing operations (adjusted for noncash items), offset by other changes in working capital. The working capital changes were driven primarily by higher accounts receivable from higher seasonal sales volumes and lower accounts payable from lower gas prices at the Sempra Utilities.

SDG&E

Cash provided by operating activities at SDG&E decreased in 2008 primarily due to a decrease in overcollected regulatory balancing accounts compared to an increase in 2007. Over- and under-collected regulatory balancing accounts reflect the difference between customer billings and recorded or CPUC-authorized costs. These differences are required to be balanced over time.

The decrease in overcollected regulatory balancing accounts was offset by changes in working capital, principally inventory and lower net income tax payments. The reduction in inventory in 2008 resulted from SoCalGas assuming procurement responsibility for SDG&E's core natural gas customers in 2008. Lower net income tax payments were due to 2007 overpayments applied to 2008 taxes and higher refunds received in 2008 as compared to 2007.

The increase in cash provided by operating activities at SDG&E in 2007 was primarily due to a \$150 million increase in income from continuing operations (adjusted for noncash items) and an increase in overcollected regulatory balancing accounts.

PE and SoCalGas

Cash provided by operating activities at PE increased in 2008 primarily due to changes at SoCalGas, principally an increase in net income adjusted for noncash items (\$89 million at PE and \$91 million at SoCalGas), and a decrease in accounts receivable. Accounts receivable decreased in 2008 and increased in 2007 due to lower natural gas prices and seasonably warm weather in 2008, resulting in lower demand for natural gas for heating in the fourth quarter.

These increases were offset by an increase in inventory and a \$40 million payment for the termination of an interest rate swap in 2008. The increase in inventory in 2008 resulted from SoCalGas assuming procurement responsibility for SDG&E's core natural gas customers in 2008.

The decrease in cash provided by PE's operating activities in 2007 was primarily due to changes in working capital at SoCalGas, principally accounts receivable, accounts payable and overcollected regulatory balancing accounts. The working capital changes were driven by higher accounts receivable from higher seasonal volumes and lower accounts payable from lower gas prices.

The table below shows the contributions to pension and other postretirement benefit plans for each of the past three years.

CONTRIBUTIONS TO PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS 2006-2008							
<i>(Dollars in millions)</i>							
	Pension Benefits			Other Postretirement Benefits			
	2008	2007	2006	2008	2007	2006	
Sempra Energy Consolidated	\$ 65	\$ 35	\$ 35	\$ 40	\$ 45	\$ 32	
SDG&E	38	27	30	16	15	12	
PE and SoCalGas	1	1	1	22	28	19	

CASH FLOWS FROM INVESTING ACTIVITIES

CASH USED IN INVESTING ACTIVITIES							
<i>(Dollars in millions)</i>							
	2008	2008 Change		2007	2007 Change		2006
Sempra Energy Consolidated	\$ (2,386)	\$ 313	15%	\$ (2,073)	\$ 1,207	139%	\$ (866)
SDG&E	(940)	233	33	(707)	(360)	(34)	(1,067)
PE	(319)	(170)	(35)	(489)	(59)	(11)	(548)
SoCalGas	(318)	(161)	(34)	(479)	(34)	(7)	(513)

Sempra Energy

Cash used in investing activities at Sempra Energy increased in 2008. The primary outflows of cash were

§ \$495 million for the acquisition of EnergySouth, which is net of \$16 million of cash acquired;

§ \$150 million contribution to Rockies Express; and

§ \$413 million in purchases of industrial development bonds, offset by proceeds from remarketing of these bonds of \$237 million.

These outflows were partially offset by the net proceeds from the RBS transaction. Total proceeds of \$2.1 billion, which are net of \$383 million of cash sold, were offset by our capital contribution of \$1.6 billion to form the partnership.

The increase in cash used in investing activities at Sempra Energy in 2007 was primarily attributable to activity in 2006, including:

§ \$789 million in proceeds from asset sales (primarily the sales of Twin Oaks, the Energy Services and Facilities Management businesses, and SEPCO at Sempra Generation); and

§ \$404 million in dividends received from our equity method investment related to the sale of the Topaz power plants.

During 2006, Sempra Generation sold its Texas-based power plants and other assets due to the increased market valuation of coal-fired power plants in Texas. The coal-fired assets included our wholly owned Twin Oaks power plant and Coletto Creek, which we co-owned in the Topaz joint venture with Riverstone Holdings. The joint venture also owned three operating natural gas and oil-fired plants in Laredo, San Benito and Corpus Christi, Texas, which were sold in 2006. We provide additional information about the sales in Notes 4 and 5 of the Notes to Consolidated Financial Statements.

SDG&E

Cash used in investing activities at SDG&E increased in 2008 primarily due to:

§ a \$170 million increase in capital expenditures, including a \$91 million increase at Otay Mesa VIE

§ the net purchase of \$24 million of industrial development bonds

§ a \$33 million increase in loans to affiliates in 2008

The decrease in cash used in investing activities at SDG&E in 2007 was primarily due to \$356 million higher capital expenditures in 2006 for:

§ the purchase of the Palomar generating facility from Sempra Generation; and

§ construction of the Otay Metro Powerloop transmission project; partially **offset by**

§ increased capital spending in 2007 due to the October 2007 Southern California wildfires.

PE and SoCalGas

Cash used in investing activities at PE decreased in 2008 due to the reduction in outstanding advances from SoCalGas to Sempra Energy by \$136 million in 2008.

Cash used in PE's and SoCalGas' investing activities in 2007 decreased primarily due to a \$111 million decrease in advances to Sempra Energy (including \$87 million of advances made by SoCalGas), partially offset by a \$44 million increase in capital expenditures in 2007.

CAPITAL EXPENDITURES AND INVESTMENTS

The table below shows our expenditures for property, plant and equipment, and for investments. We provide capital expenditure information by segment in Note 17 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY CAPITAL EXPENDITURES AND INVESTMENTS/ACQUISITIONS		
<i>(Dollars in millions)</i>		
	Property, plant and equipment	Investments and acquisition of subsidiaries
2008	\$ 2,061	\$ 2,675
2007	2,011	121
2006	1,907	257
2005	1,377	86
2004	1,065	74

Sempra Energy Capital Expenditures

Capital expenditures at the Sempra Utilities are discussed below.

At Sempra Global, the primary capital expenditures over the last three years were as follows:

Sempra LNG

Energía Costa Azul LNG Receipt Terminal. Through December 31, 2008, Sempra LNG has made expenditures of \$1.2 billion related to the terminal (including breakwater), the nitrogen-injection facility, and an expansion project, including:

- § \$228 million in 2008
- § \$298 million in 2007
- § \$302 million in 2006

Cameron LNG Receipt Terminal. The estimated costs of this project, including capitalized interest, are approximately \$900 million (excluding pre-expansion costs, which are \$43 million to date). Through December 31, 2008, Sempra LNG has made expenditures of \$793 million related to the terminal and a proposed expansion project, including:

- § \$152 million in 2008
- § \$224 million in 2007
- § \$279 million in 2006

Sempra Pipelines & Storage

Sempra Pipelines & Storage completed its expansion of its existing pipelines in Baja California, Mexico, and the addition of a spur line to connect Sempra LNG's Energía Costa Azul terminal to an existing Sempra Energy natural gas pipeline in Mexico with interconnections to the U.S. border. Commercial operation of the pipelines expansion began in May 2008. Sempra Pipelines & Storage also had capital expenditures for its Cameron Interstate Pipeline and natural gas storage projects. Related expenditures were

Pipelines:	Natural gas storage:
§ \$147 million in 2008	§ \$34 million in 2008
§ \$270 million through 2007	§ \$217 million through 2007

Sempra Energy Investments and Acquisition of Subsidiaries

In 2008, investments and acquisition of subsidiaries included

- § capital contributions of \$1.6 billion to RBS Sempra Commodities and \$150 million to Rockies Express Pipeline LLC (Rockies Express)
- § the acquisition of EnergySouth for \$495 million (net of \$16 million of cash acquired)
- § the purchase of \$413 million in industrial development bonds

In 2007, investments included

- § a contribution of \$100 million to Rockies Express
- § \$21 million for purchases of available-for-sale securities and other investments

In 2006, investments included

- § a \$128 million investment in industrial development bonds in connection with the Liberty project (discussed in Note 6 of the Notes to Consolidated Financial Statements)
- § a \$104 million initial capital contribution to Rockies Express during the first half of 2006

The 2006 contribution was returned to Sempra Pipelines & Storage later that year in connection with financing received by Rockies Express during the second quarter of 2006 and was reported in Distributions from Investments on the Statements of Consolidated Cash Flows.

Sempra Utilities Capital Expenditures and Investments

The Sempra Utilities' capital expenditures for property, plant and equipment were

<i>(Dollars in millions)</i>	2008	2007	2006
SDG&E	\$ 884	\$ 714	\$ 1,070
SoCalGas	454	457	413

Capital expenditures at the Sempra Utilities in 2008 included

SDG&E

- § \$386 million of improvements to natural gas and electric distribution
- § \$230 million of improvements to electric transmission and generation systems
- § \$178 million at Otay Mesa VIE

SoCalGas

- § \$454 million of improvements to natural gas infrastructure

The larger amount in 2006 for SDG&E compared to 2008 and 2007 was primarily due to the purchase of the Palomar generating facility from Sempra Generation in 2006. This purchase is substantially eliminated in Sempra Energy's Statement of Consolidated Cash Flows in 2006, as the capital expenditures were recorded by Sempra Energy over the construction period from 2004 through the first quarter of 2006.

SDG&E also purchased \$488 million of industrial development bonds in 2008. We discuss these bonds in Note 6 of the Notes to Consolidated Financial Statements.

FUTURE CONSTRUCTION EXPENDITURES AND INVESTMENTS

The amounts and timing of capital expenditures are generally subject to approvals by the CPUC, the FERC and other regulatory bodies. However, in 2009, we expect to make capital expenditures and investments of \$2.5 billion, including:

- § \$1.3 billion at the Sempra Utilities for capital projects and plant improvements (\$800 million at SDG&E and \$500 million at SoCalGas)
- § \$1.2 billion at our other subsidiaries for the development of LNG facilities, natural gas storage facilities and pipelines, and renewable generation projects

The expected capital expenditures of \$1.2 billion at our other subsidiaries include an expected contribution of \$450 million to Rockies Express.

The Sempra Utilities expect the capital expenditures to include

- § \$500 million for additions to SDG&E's natural gas and electric distribution generation systems, and advanced metering infrastructure
- § \$500 million at SoCalGas for improvements to distribution and transmission systems, and for advanced metering infrastructure
- § \$200 million for improvements to SDG&E's electric transmission infrastructure
- § \$100 million at SDG&E for the Sunrise Powerlink transmission line

The Sempra Utilities expect to finance these expenditures and investments with cash flows from operations, cash on hand and debt issuances. These amounts do not include \$130 million of expected capital expenditures of Otay Mesa VIE.

Over the next five years, the Sempra Utilities expect to make capital expenditures of:

- § \$5.8 billion at SDG&E, at an average rate of \$1.17 billion per year
- § \$3.2 billion at SoCalGas, at an average rate of \$650 million per year

SDG&E's estimated capital expenditures include \$189 million for the transfer of Sempra Generation's El Dorado facility in 2011.

Sempra Energy expects to make capital expenditures at its other subsidiaries of \$2.9 billion, at an average rate of \$580 million per year, over the next five years.

Capital expenditure amounts include capitalized interest. At the Sempra Utilities, the amounts also include the portion of allowance for funds used during construction (AFUDC) related to debt, but exclude the portion of AFUDC related to equity. We provide further details about AFUDC in Note 1 of the Notes to Consolidated Financial Statements.

Periodically, we review our construction, investment and financing programs and revise them in response to changes in regulation, economic conditions, competition, customer growth, inflation, customer rates, the cost and availability of capital, and environmental requirements. We discuss these considerations in more detail in Notes 14 and 16 of the Notes to Consolidated Financial Statements.

Our level of capital expenditures and investments in the next few years may vary substantially and will depend on the cost and availability of financing, regulatory approvals and business opportunities providing desirable rates of return. We intend to finance our capital expenditures in a manner that will maintain our strong investment-grade ratings and capital structure.

CASH FLOWS FROM FINANCING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES							
<i>(Dollars in millions)</i>							
	2008	2008 Change		2007	2007 Change		2006
Sempra Energy Consolidated	\$ 868	\$ 1,164	393 %	\$ (296)	\$ 316	52 %	\$ (612)
SDG&E	182	15	9	167	(276)	(62)	443
PE	(106)	48	31	(154)	88	36	(242)
SoCalGas	(103)	48	32	(151)	88	37	(239)

Sempra Energy

Cash from financing activities at Sempra Energy in 2008 increased due to

§ a \$1,302 million increase in issuances of long-term debt and

§ a \$993 million decrease in long-term debt payments, **offset by**

§ an \$833 million increase in common stock repurchases (reflecting our \$1 billion share repurchase program in 2008) and

§ a \$248 million lower increase in short-term debt.

The decrease in cash used in financing activities at Sempra Energy in 2007 was primarily due to an \$812 million increase in short-term debt in 2007 compared to a \$791 million decrease in 2006. This decrease was **offset by:**

§ an \$809 million increase in long-term debt payments

§ a \$148 million decrease in issuances of long-term debt

§ a \$148 million increase in common stock repurchases

§ \$83 million of proceeds in 2006 from the sale of our interests in affordable-housing projects

The increase in short-term debt was primarily to fund the repayment of maturing long-term debt, and to a lesser extent, from increased borrowings at Sempra Commodities.

SDG&E

Cash provided by financing activities at SDG&E in 2008 increased due to:

§ no payments on long-term debt in 2008, compared to \$66 million in 2007; and

§ a \$72 million decrease in short-term debt in 2007, **offset by**

§ a \$120 million net decrease in the issuance of long-term debt in 2008 (a \$250 million decrease at SDG&E, offset by an increase of \$130 million by Otay Mesa VIE).

The decrease in cash provided by financing activities at SDG&E in 2007 was primarily due to:

§ a \$200 million capital contribution made by Sempra Energy in 2006

§ a \$98 million decrease in issuances of long-term debt in 2007

PE and SoCalGas

Cash used in financing activities at PE and SoCalGas in 2008 decreased due to a \$250 million issuance of long-term debt in 2008, offset by an increase of \$200 million in common dividends paid.

The 2007 changes at PE and SoCalGas were due to an \$88 million decrease in short-term debt at SoCalGas in 2006.

LONG-TERM DEBT

Long-term balances (including the current portion of long-term debt) at December 31, 2008 were:

<i>(Dollars in millions)</i>	2008	2007	2006
Sempra Energy Consolidated	\$ 6,954	\$ 4,560	\$ 5,206
SDG&E	2,144	1,958	1,704
PE/SoCalGas	1,370	1,113	1,107

At December 31, 2008, the following information applies to long-term debt:

	Sempra Energy Consolidated	SDG&E	SoCalGas
Weighted average life to maturity, in years	10.1	15.9	8.8
Weighted average interest rate	5.68 %	4.85 %	4.71 %

Issuances of Long-Term Debt

In November 2008, Sempra Energy publicly offered and sold \$250 million of 8.90-percent notes maturing in 2013 and \$500 million of 9.80-percent notes maturing in 2019.

In November 2008, SoCalGas publicly offered and sold \$250 million of 5.50-percent first mortgage bonds maturing in 2014.

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

In 2008, SDG&E's variable interest entity, Otay Mesa VIE, had construction loan borrowings of \$193 million.

In September 2007, SDG&E publicly offered and sold \$250 million of 6.125-percent first mortgage bonds, maturing in 2037. Otay Mesa VIE had construction loan borrowings of \$63 million.

In September 2006, SDG&E issued \$161 million of variable-rate first mortgage bonds, maturing in 2018, and applied the proceeds in November 2006 to retire an identical amount of first mortgage bonds.

In June 2006, SDG&E publicly offered and sold \$250 million of 6-percent first mortgage bonds, maturing in 2026.

In 2006, Sempra Pipelines & Storage incurred \$128 million of long-term debt in order to reduce its property tax related to the Liberty facility in Calcasieu Parish. We discuss the debt further in Note 6 of the Notes to Consolidated Financial Statements. Sempra Pipelines & Storage recorded bonds receivable for the same amount.

Payments on Long-Term Debt

Payments on long-term debt in 2008 included \$60 million of Sempra Pipelines & Storage notes payable that matured in April 2008.

Payments on long-term debt in 2007 primarily consisted of:

§ \$600 million of Sempra Energy notes payable that matured in May 2007

§ \$300 million of Sempra Energy notes payable that were due in May 2008 but were redeemed in August 2007

§ \$66 million, the remaining outstanding balance of SDG&E's rate-reduction bonds

Payments on long-term debt in 2006 were primarily at SDG&E and consisted of:

§ \$161 million first mortgage bonds

§ \$66 million rate-reduction bonds

Also in 2006, Sempra Energy repaid \$24 million of debt incurred to acquire limited partnership interests.

In Note 6 of the Notes to Consolidated Financial Statements, we provide information about our lines of credit and additional information about debt activity.

CAPITAL STOCK TRANSACTIONS

Sempra Energy

During 2008, we repurchased 18.4 million shares of our common stock for \$1 billion in a share repurchase program. We discuss this repurchase program in Note 13 of the Notes to Consolidated Financial Statements. Cash provided by employee stock option exercises was

§ \$18 million in 2008

§ \$32 million in 2007

§ \$79 million in 2006

During 2007, we repurchased approximately 3 million shares of common stock for \$161 million in connection with a share repurchase program authorized in 2005.

DIVIDENDS

Sempra Energy

Sempra Energy paid dividends on common stock of:

§ \$339 million in 2008

§ \$316 million in 2007

§ \$283 million in 2006

The increases were due to increases in the per-share quarterly dividend from \$0.30 in 2006 to \$0.31 in 2007 and to \$0.35 in 2008. The increase in 2008 was offset by \$11 million due to the reduction in shares from the repurchase program.

SDG&E did not pay any common dividends to Sempra Energy in 2008, 2007 or 2006 to preserve cash to fund its capital expenditures program.

SoCalGas paid dividends to PE and PE paid corresponding dividends to Sempra Energy of:

§ \$350 million in 2008

§ \$150 million in 2007

§ \$150 million in 2006

In December 2007, SoCalGas declared a common dividend of \$150 million to PE and PE declared a corresponding dividend of the same amount to Sempra Energy. These dividends were paid in January 2008. Dividends paid by SoCalGas to PE are eliminated in Sempra Energy's and PE's consolidated financial statements for all three years.

Dividends paid by PE to Sempra Energy are eliminated in Sempra Energy's consolidated financial statements for all three years.

The board of directors for each of Sempra Energy, SDG&E, PE and SoCalGas have the discretion to determine the payment and amount of future dividends. The CPUC's regulation of SDG&E's and SoCalGas' capital structures limits the amounts that are available for loans and dividends to Sempra Energy. At December 31, 2008, Sempra Energy could have received combined loans and dividends of approximately \$150 million from SDG&E. No amounts were available from SoCalGas at December 31, 2008.

CAPITALIZATION

TOTAL CAPITALIZATION AND DEBT-TO-CAPITALIZATION RATIOS				
<i>(Dollars in millions)</i>				
	As of December 31, 2008			
	Sempra Energy Consolidated	SDG&E	PE	SoCalGas
Total capitalization	\$ 15,845	\$ 4,893	\$ 3,310	\$ 2,860
Debt-to-capitalization ratio	47%	44%	41%	48%

Significant changes during 2008 that affected capitalization include the following:

§ Sempra Energy: a net increase in long-term debt, increases in short-term borrowings, an increase in minority interests and comprehensive income exceeding dividends, offset by common stock repurchases

§ SDG&E: increases in long-term debt and comprehensive income, offset by a decrease in minority interest

§ PE and SoCalGas: comprehensive income exceeding dividends and an increase in long-term debt

We provide additional information about the significant changes in Notes 6 and 13 of the Notes to Consolidated Financial Statements and "Overall Results of Operations of Sempra Energy and Factors Affecting the Results" above.

COMMITMENTS

The following tables summarize principal contractual commitments at December 31, 2008 for Sempra Energy, SDG&E and PE/SoCalGas, respectively. We provide additional information about commitments above and in Notes 6, 9 and 16 of the Notes to Consolidated Financial Statements.

PRINCIPAL CONTRACTUAL COMMITMENTS OF SEMPR ENERGY

(Dollars in millions)

	2009	2010 and 2011	2012 and 2013	Thereafter	Total
Short-term debt	\$ 503	\$ --	\$ --	\$ --	\$ 503
Long-term debt	410	813	948	4,783	6,954
Interest on debt (1)	356	636	592	2,387	3,971
Due to unconsolidated affiliate	--	102	--	--	102
Operating leases	99	181	93	346	719
Litigation settlements	28	55	49	49	181
Purchased-power contracts	342	501	495	1,676	3,014
Natural gas contracts	1,265	876	95	211	2,447
LNG contract (2)	366	2,157	2,154	17,933	22,610
Construction commitments	322	251	--	--	573
SONGS decommissioning	--	--	--	445	445
Other asset retirement obligations	17	33	35	647	732
Pension and postretirement benefit obligations (3)	211	562	603	1,274	2,650
Environmental commitments	26	24	4	14	68
Other	9	21	8	41	79
Totals	\$ 3,954	\$ 6,212	\$ 5,076	\$ 29,806	\$ 45,048

(1) We calculate expected interest payments using the stated interest rate for fixed-rate obligations, including floating-to-fixed interest-rate swaps. We calculate expected interest payments for variable-rate obligations based on forward rates in effect at December 31, 2008, including fixed-to-floating interest-rate swaps.

(2) Sempra LNG has a purchase agreement with Tangguh PSC Contractors (Tangguh PSC) for the supply of 500 million cubic feet of natural gas per day from Indonesia's Tangguh liquefaction facility to Sempra LNG's Energía Costa Azul regasification terminal at a price based on the Southern California border index. The expected minimum payments under the contract are based on forward prices of the Southern California border index plus an estimated 1 percent escalation per year. Sempra LNG has a contract to sell a portion of the volumes purchased from Tangguh PSC to Mexico's national electric company, Comisión Federal de Electricidad (CFE) at prices that are based on the Southern California border index for natural gas.

(3) Amounts are after reduction for the Medicare Part D subsidy and only include expected payments to the plans for the next 10 years.

PRINCIPAL CONTRACTUAL COMMITMENTS OF SDG&E*(Dollars in millions)*

	2009	2010 and 2011	2012 and 2013	Thereafter	Total
Long-term debt	\$ 2	\$ 14	\$ 14	\$ 2,114	\$ 2,144
Interest on debt (1)	102	214	223	1,347	1,886
Operating leases	24	43	35	59	161
Litigation settlements	6	12	12	11	41
Purchased-power contracts	342	501	495	1,676	3,014
Construction commitments	138	249	--	--	387
El Dorado purchase agreement	--	189	--	--	189
SONGS decommissioning	--	--	--	445	445
Other asset retirement obligations	4	8	7	90	109
Pension and postretirement benefit obligations (2)	77	196	208	358	839
Environmental commitments	6	6	2	14	28
Totals	\$ 701	\$ 1,432	\$ 996	\$ 6,114	\$ 9,243

(1) SDG&E calculates expected interest payments using the stated interest rate for fixed-rate obligations, including floating-to-fixed interest-rate swaps. SDG&E calculates expected interest payments for variable-rate obligations based on forward rates in effect at December 31, 2008, including fixed-to-floating interest-rate swaps.

(2) Amounts are after reduction for the Medicare Part D subsidy and only include expected payments to the plans for the next 10 years.

PRINCIPAL CONTRACTUAL COMMITMENTS OF PE AND SOCALGAS*(Dollars in millions)*

	2009	2010 and 2011	2012 and 2013	Thereafter	Total
SoCalGas					
Long-term debt	\$ 100	\$ 250	\$ 250	\$ 770	\$ 1,370
Interest on debt (1)	62	117	94	381	654
Natural gas contracts	991	874	95	211	2,171
Operating leases	47	85	13	14	159
Construction commitments	32	--	--	--	32
Litigation settlements	12	23	23	23	81
Environmental commitments	20	17	3	--	40
Pension and postretirement benefit obligations (2)	101	295	323	760	1,479
Asset retirement obligations	14	25	27	529	595
Total SoCalGas	1,379	1,686	828	2,688	6,581
PE - - operating leases	13	6	1	--	20
Total PE consolidated	\$ 1,392	\$ 1,692	\$ 829	\$ 2,688	\$ 6,601

(1) Expected interest payments were calculated using the stated interest rate for fixed-rate obligations. Expected interest payments were calculated based on forward rates in effect at December 31, 2008 for variable-rate obligations, including fixed-to-floating interest-rate swaps.

(2) Amounts are after reduction for the Medicare Part D subsidy and only include expected payments to the plans for the next 10 years.

The tables exclude

- § contracts between consolidated affiliates
- § intercompany debt
- § individual contracts that have annual cash requirements less than \$1 million
- § employment contracts

The tables also exclude income tax liabilities of

- § \$88 million for Sempra Energy
- § \$18 million for SDG&E
- § \$18 million for SoCalGas

These liabilities were recorded in accordance with Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48)*. They were excluded from the tables because we are unable to reasonably estimate the timing of future payments due to uncertainties in the timing of the effective settlement of tax positions.

We provide additional information about unrecognized tax benefits in Note 8 of the Notes to Consolidated Financial Statements.

OFF BALANCE-SHEET ARRANGEMENTS

Sempra Energy has provided guarantees aggregating \$2.6 billion at December 31, 2008, to related parties, including the guarantees related to Rockies Express financings and continuing transitional guarantees related to RBS Sempra Commodities. We discuss these guarantees further in Notes 6 and 16 of the Notes to Consolidated Financial Statements.

CREDIT RATINGS

The table below shows the credit ratings of Sempra Energy and its principal subsidiaries which remained at investment grade levels in 2008. Also in 2008, Standard & Poor's upgraded SDG&E's and SoCalGas' unsecured debt rating from A- to A. As of January 31, 2009, the companies have a stable ratings outlook from Moody's and Fitch credit rating agencies. However, in July 2008, Standard & Poor's issued a negative ratings outlook on the companies, except Sempra Global.

CREDIT RATINGS OF SEMPRA ENERGY AND PRINCIPAL SUBSIDIARIES

	Standard & Poor's	Moody's Investor Services, Inc.	Fitch
SEMPRA ENERGY			
Unsecured debt	BBB+	Baa1	A
SDG&E			
Secured debt	A+	A1	AA
Unsecured debt	A	A2	AA-
Preferred stock	BBB+	Baa1	A+
Commercial paper	A-1	P-1	F-1+
SoCalGas			
Secured debt	A+	A1	AA
Unsecured debt	A	A2	AA-
Preferred stock	BBB+	Baa1	A+
Commercial paper	A-1	P-1	F-1+
PACIFIC ENTERPRISES			
Preferred stock	BBB+	--	A
SEMPRA GLOBAL			
Unsecured debt guaranteed by Sempra Energy	--	Baa1	A
Commercial paper guaranteed by Sempra Energy	A-2	P-2	F-1

SEMPRA ENERGY OVERVIEW

The Sempra Utilities' operations and Sempra Generation's long-term contracts generally provide relatively stable earnings and liquidity. However, for the next few years SDG&E will limit its common stock dividends to reinvest a portion of its earnings in significant capital projects. Also, Sempra Generation's contract with the DWR, which provides a significant portion of Sempra Generation's revenues, ends in late 2011. Because it is unable to forecast with certainty future electricity prices and the cost of natural gas, contracts it enters into to replace this capacity may provide substantially lower revenue.

We expect that Sempra LNG and Sempra Pipelines & Storage will provide relatively stable earnings and liquidity from their current operations and construction programs completed in the future, but will require substantial funding for these programs. In addition, until there are firm supply or capacity contracts for 100% of Sempra LNG's Cameron facility and until firm supply contracts become effective for the Energía Costa Azul facility, Sempra LNG will seek to obtain interim LNG supplies, which may result in greater variability in revenues and earnings. Sempra LNG may also enter into short-term service contracts to utilize capacity.

The Sempra Utilities' performance will depend primarily on the ratemaking and regulatory process, electric and natural gas industry restructuring, environmental regulations, and the changing energy marketplace. Their performance will also depend on the successful completion of capital projects that we discuss in various sections of this report. As the 2008 GRC provides for fixed annual increases rather than for adjustments based on inflation indices as in the past, performance will depend on the Sempra Utilities' ability to manage the effects of rising costs, including bad debts. We provide additional information in Notes 14 and 15 of the Notes to Consolidated Financial Statements.

The Sempra Utilities have additional income potential above authorized margins through incentive mechanisms. If performance goals and incentive targets are achieved, SDG&E and SoCalGas expect incentive earnings to contribute annually from \$3 million to \$7 million and from \$10 million to \$20 million, respectively, to their net income. Amounts realized each year may be affected by the timing of the approval of the award. If goals are not met, penalties may be incurred.

As we discuss in Note 3 of the Notes to Consolidated Financial Statements, on April 1, 2008, we completed the formation of a partnership, RBS Sempra Commodities, to own and operate our commodities-marketing businesses, which generally comprised our Sempra Commodities segment. Our joint venture partner, RBS, is obligated to provide the partnership with all growth capital, working-capital requirements and credit support, as we discuss above in "Capital Resources and Liquidity – Sempra Commodities." Future earnings and distributions from the partnership will depend on profitability and growth achieved in the joint venture and the continued ability of RBS to provide capital and credit support for the partnership. RBS has been greatly affected by the world-wide turmoil in banking and became indirectly controlled by the government of the United Kingdom on December 1, 2008.

We may be further impacted by the current world-wide economic crisis and rapidly changing economic conditions. The impacts of the global credit market crisis on our credit availability and cost are discussed in "Capital Resources and Liquidity" in this report. Moreover, the dollar has strengthened significantly against all foreign currencies, especially in Mexico and South America where we have significant operations. These factors, coupled with very low natural gas prices which affect profitability at Sempra Generation and Sempra LNG, could, if they remain unchanged, adversely affect profitability. Additionally, given the uncertainty of commodity markets and the lack of debt financing for energy infrastructure, which impact related hedging activity, growth at RBS Sempra Commodities could be dampened.

We discuss additional matters that could affect our future performance in Notes 14 through 16 of the Notes to Consolidated Financial Statements.

LITIGATION

We describe legal proceedings which could adversely affect our future performance in Note 16 of the Notes to Consolidated Financial Statements.

SEMPRA UTILITIES -- INDUSTRY DEVELOPMENTS AND CAPITAL PROJECTS

We describe capital projects, electric and natural gas regulation and rates, and other pending proceedings and investigations that affect our business in Notes 14 and 15 of the Notes to Consolidated Financial Statements.

SEMPRA GLOBAL INVESTMENTS

As we discuss in "Cash Flows From Investing Activities," our investments will significantly impact our future performance. In addition to the discussion below, we provide information about these investments in "Capital Resources and Liquidity."

Sempra Generation

In December 2008, Sempra Generation completed a solar-energy project, a 10-MW photovoltaic power-generation site next to its El Dorado Energy power plant near Boulder City, Nevada. The plant began operations in December 2008 and began selling power to Pacific Gas and Electric in 2009 under a 20-year power purchase agreement.

Sempra Generation also has purchased land and incurs development costs for potential development of renewable energy generation projects.

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

Sempra Pipelines & Storage

EnergySouth

In October 2008, Sempra Pipelines & Storage acquired EnergySouth, an energy services holding company based in Mobile, Alabama. Principal holdings of EnergySouth include Sempra Midstream (formerly EnergySouth Midstream) and Mobile Gas. As a natural gas distribution utility, Mobile Gas serves approximately 93,000 customers in southwest Alabama.

Sempra Midstream is the general partner and 91-percent owner of Bay Gas Storage Company (Bay Gas) and owned 60 percent of Mississippi Hub, LLC (Mississippi Hub) through December 31, 2008. On January 16, 2009, Sempra Midstream acquired the remaining 40-percent ownership interest in Mississippi Hub for \$94 million.

Bay Gas provides underground storage and delivery of natural gas. It is the easternmost storage facility on the Gulf Coast, with direct service to the Florida market. Currently, Bay Gas has

§ 11.4 Bcf of working natural gas storage capacity that is fully contracted and in operation

§ an additional 5 Bcf that is 64-percent contracted and under construction with a scheduled in-service date of late-2010

We plan to increase the total Bay Gas capacity to 27 Bcf of underground salt-dome storage.

Mississippi Hub develops high-turn, underground salt-dome natural gas storage in Simpson County, Mississippi. This facility has planned direct interconnections to the natural gas production areas in eastern Texas, Oklahoma and Arkansas, as well as to the Northeast sales market.

Currently, Mississippi Hub's first 15 Bcf of storage capacity is under construction. Long-term commitments are in place for 4 Bcf of this capacity. Operations are slated to commence in late-2010. We plan to increase the total Mississippi Hub capacity to 30 Bcf of high-turn, salt-dome storage by the end of 2015.

We expect capital costs of the Bay Gas and Mississippi Hub projects to be approximately \$800 million.

Rockies Express Pipeline

The Rockies Express project is comprised of three segments: 1) the Entrega Pipeline, 2) REX-West, and 3) REX-East.

§ The Entrega Pipeline runs from the Meeker Hub in Colorado to Wamsutter, Wyoming and connects Wamsutter to an interconnection with REX at the Cheyenne Hub in Colorado. The pipeline began service in February 2007.

§ REX-West extends 713 miles from the Cheyenne Hub to Audrain County in Missouri, and began interim service in January 2008 and full service in May 2008.

§ We expect REX-East, which will run 638 miles from Missouri to Clarington, Ohio, to be fully operational in late 2009 subject to timely receipt of regulatory approvals.

Total project cost is estimated to be approximately \$6.2 billion.

Rockies Express is requesting authorization to construct and operate certain facilities that will comprise its Meeker, Colorado to Cheyenne, Wyoming expansion project. The proposed expansion will add additional natural gas compression, and the expansion is fully contracted and is expected to be operational in April 2010. The total estimated cost for the proposed project is approximately \$78 million.

In February 2006, Rockies Express entered into an agreement with Overthrust Pipeline Company (Overthrust), a subsidiary of Questar Corp., for a long-term lease to provide REX with capacity for up to 1.5 Bcf per day on Overthrust's pipeline. The capacity lease effectively extends the REX to the Opal Hub in Wyoming.

Liberty Gas Storage (Liberty)

Liberty, as currently permitted, is a 17-Bcf salt-cavern natural gas storage facility located in Calcasieu Parish, Louisiana. The facility has been under construction by Sempra Pipelines & Storage and its 25-percent partner Proliance Transportation and Storage, LLC. When completed, Liberty will be connected with several interstate pipelines, including the Cameron Interstate Pipeline operated by Sempra Pipelines & Storage, and will connect area LNG regasification terminals to an interstate natural gas transmission system and storage facilities. We estimate the total project cost to be approximately \$250 million, and we have expended \$204 million through December 31, 2008. Completion of the project has been delayed by subsurface and well-completion problems. If ongoing corrective measures prove to be unsuccessful, the salt-cavern facility may not go into service, or may have reduced capacity when placed in service. In the event that the cavern is abandoned, we may be required to take an impairment charge of up to \$65 million after tax.

In 2006, we acquired additional property with 11 Bcf of existing salt dome caverns and the capability to add significant additional capacity by mining new caverns. These caverns would allow Liberty to expand to at least 28 Bcf of total capacity. Total project costs for Liberty and its expansion are expected to be approximately \$450 million to \$500 million.

Pipelines in Mexico

Sempra Pipelines & Storage completed its expansion of its existing pipeline in Baja California, Mexico, and the addition of a spur line to connect Sempra LNG's Energía Costa Azul terminal to an existing Sempra Energy natural gas pipeline in Mexico with interconnections to the U.S. border. Commercial operation of the pipeline expansion began in May 2008.

Sempra LNG

Energía Costa Azul LNG Receipt Terminal

Sempra LNG's Energía Costa Azul LNG receipt terminal in Baja California, Mexico, with a capacity of 1 Bcf per day, began operations in May 2008. The facility generates revenue under a capacity agreement with Shell México Gas Natural, expiring in 2028, that permits Shell to use one-half of the terminal's capacity. We expect that LNG supplies will begin arriving in 2009 under a 20-year purchase and sale agreement with Tangguh PSC (discussed in "Commitments" above) that will fully use the remaining capacity.

Sempra LNG has been negotiating for temporary supplies of LNG to use the available capacity until the Tangguh PSC supplies arrive.

A nitrogen-injection facility currently under construction will allow the terminal to process LNG cargoes from a wider variety of sources and will provide additional revenue from long-term firm capacity payments for the injection service. We expect the nitrogen-injection facility to be completed late 2009.

Sempra LNG has a 15-year natural gas sales contract with Mexico's government-owned electric utility, the CFE, which started in 2008 and runs through 2022. The agreement provides the CFE with an average of about 130 million cubic feet per day of natural gas. The contract supports the CFE's future energy needs in northern Baja California, including the Presidente Juarez power plant in Rosarito, Mexico.

We have received approvals from key governmental agencies to expand the terminal capacity to 2.5 Bcf per day. The ultimate scope and timing of a proposed expansion project will depend on the outcome of negotiations for supply and/or terminal service agreements.

Cameron LNG Receipt Terminal

Sempra LNG's Cameron LNG receipt terminal is currently under construction in Hackberry, Louisiana. Construction is expected to be completed, and capacity revenues to start, in the second half of 2009. The terminal is under contract for 40% of its capacity through 2029. Total project costs for the Cameron LNG receipt terminal are expected to be approximately \$900 million. Force majeure and cost overrun claims have been made by some of the construction companies at the receipt terminal for additional costs, primarily related to hurricanes. Sempra LNG is currently in negotiations with the companies, and cannot estimate at this time the additional amounts that may be paid. In January 2007, Sempra LNG received approval from the FERC for a possible expansion of the terminal's production capacity to 2.65 Bcf per day of natural gas from 1.5 Bcf per day. The ultimate scope and timing of the expansion project will depend on the outcome of negotiations for supply and/or terminal service agreements.

MARKET RISK

Market risk is the risk of erosion of our cash flows, net income, asset values and equity due to adverse changes in prices for various commodities and in interest rates. Sempra Energy also may be adversely affected by changes in foreign-currency rates.

Risk Policies

Sempra Energy has policies governing its market risk management and trading activities. As required by CPUC and FERC affiliate compliance rules, Sempra Energy and the Sempra Utilities maintain separate and independent risk management committees, organizations and processes for each of the Sempra Utilities and for all non-CPUC regulated affiliates to provide oversight of these activities. The committees consist of senior officers who establish policy, oversee energy risk management activities, and monitor the results of trading and other activities to ensure compliance with our stated energy risk management and trading policies. These activities include, but are not limited to, daily monitoring of detailed information for market positions that create credit, liquidity and market risk. Independently from our energy procurement departments, the respective oversight organizations and committees separately monitor energy price risk management, and measure and report the credit, liquidity and market risk associated with these positions.

Along with other tools, we use Value at Risk (VaR) to measure our exposure to market risk. VaR is an estimate of the potential loss on a position or portfolio of positions over a specified holding period, based on normal market conditions and within a given statistical confidence interval. VaR is calculated independently by the respective risk management oversight organizations. We use historical and implied volatilities and correlations between instruments and positions in our calculations.

The Sempra Utilities use energy and natural gas derivatives to manage natural gas and energy price risk associated with servicing load requirements. The use of energy and natural gas derivatives is subject to certain limitations imposed by company policy and is in compliance with risk management and trading activity plans that have been filed with and approved by the CPUC. Any costs or gains/losses associated with the use of energy and natural gas derivatives are considered to be commodity costs. Commodity costs are generally passed on to customers as incurred. However, SoCalGas is subject to incentive mechanisms that reward or penalize the utility for commodity costs above or below certain benchmarks.

In 2008, we completed the formation of RBS Sempra Commodities, a partnership that owns and operates the commodities-marketing businesses previously held by us as subsidiaries. We now account for our investment in the partnership under the equity method. As a result of the transaction, we no longer include on our Consolidated Balance Sheet the commodities and financial instruments related to these businesses that subjected us to commodities price risk and credit risk. However, the joint venture partnership is still subject to these risks, which could impact our portion of partnership earnings.

In addition, as a transitional measure, Sempra Energy continues to provide back-up guarantees and credit support for RBS Sempra Commodities, as we discuss above in "Capital Resources and Liquidity" and in Note 6 of the Notes to Consolidated Financial Statements.

We discuss revenue recognition in Notes 1 and 11 of the Notes to Consolidated Financial Statements and the additional market-risk information regarding derivative instruments in Note 11 of the Notes to Consolidated Financial Statements.

We have exposure to changes in commodity prices, interest rates and foreign currency rates and exposure to counterparty nonperformance. The following discussion of these primary market-risk exposures as of December 31, 2008, includes a discussion of how these exposures are managed.

Commodity Price Risk

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. Our various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas and electricity markets. Our policy is to manage this risk within a framework that considers the unique markets, and operating and regulatory environments of each subsidiary.

Sempra Global reduces its commodity price risk exposure substantially by passing most of the risk to its counterparties in the contracts it enters into. Any residual exposure is monitored as described above.

The Sempra Utilities' market-risk exposure is limited due to CPUC-authorized rate recovery of the costs of commodity purchases, intrastate transportation, and storage activity. However, SoCalGas may, at times, be exposed to market risk as a result of incentive mechanisms that reward or penalize the utility for commodity costs above or below certain benchmarks for SoCalGas' GCIM, which we discuss in Note 15 of the Notes to Consolidated Financial Statements. If commodity prices were to rise too rapidly, it is likely that volumes would decline. This decline would increase the per-unit fixed costs, which could lead to further volume declines. The Sempra Utilities manage their risk within the parameters of their market risk management framework. As of December 31, 2008, the total VaR of the Sempra Utilities' natural gas and electric positions was not material, and the procurement activities were in compliance with the procurement plans filed with and approved by the CPUC.

Interest Rate Risk

We are exposed to fluctuations in interest rates primarily as a result of our having issued short- and long-term debt. Subject to regulatory constraints, we periodically enter into interest-rate swap agreements to moderate our exposure to interest-rate changes and to lower our overall costs of borrowing.

The table below shows the nominal amount and the one-year VaR for long-term debt, excluding commercial paper, at December 31, 2008:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated		SDG&E		PE/SoCalGas	
	Nominal Debt	One-Year VaR	Nominal Debt	One-Year VaR	Nominal Debt	One-Year VaR
Utility fixed-rate*	\$ 3,023	\$ 657	\$ 1,910	\$ 430	\$ 1,113	\$ 229
Utility variable-rate*	486	64	236	69	250	6
Non-utility, fixed-rate and variable-rate*	2,829	467	--	--	--	--

* After the effects of interest-rate swaps.

At December 31, 2008, the total notional amount of interest-rate swap transactions ranged from \$1.1 billion to \$1.4 billion at Sempra Energy and \$249 million to \$553 million at SDG&E (ranges relate to amortizing notional

amounts). At December 31, 2008, SoCalGas' total notional amount of interest-rate swap transactions was \$150 million. We provide further information about interest-rate swap transactions in Note 11 of the Notes to Consolidated Financial Statements.

We also are subject to the effect of interest-rate fluctuations on the assets of our pension plans, other postretirement benefit plans, and SDG&E's nuclear decommissioning trusts. However, we expect the effects of these fluctuations, as they relate to the Sempra Utilities, to be passed on to customers.

Credit Risk

Credit risk is the risk of loss that would be incurred as a result of nonperformance of our counterparties' contractual obligations. We monitor credit risk through a credit-approval process and the assignment and monitoring of credit limits. We establish these credit limits based on risk and return considerations under terms customarily available in the industry.

As with market risk, we have policies that govern the management of credit risk, which are administered by the respective credit departments for each of the Sempra Utilities and for all non-CPUC regulated affiliates and overseen by their separate risk management committees.

This oversight includes calculating current and potential credit risk on a daily basis and monitoring actual balances in comparison to approved limits. We avoid concentration of counterparties whenever possible, and we believe our credit policies significantly reduce overall credit risk. These policies include an evaluation of the following:

- § prospective counterparties' financial condition (including credit ratings)
- § collateral requirements under certain circumstances
- § the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty
- § other security such as lock-box liens and downgrade triggers

We believe that we have provided adequate reserves for counterparty nonperformance.

As we describe in Note 16 of the Notes to Consolidated Financial Statements, Sempra Generation has a contract with the DWR to supply up to 1,900 MW of power to the state of California over 10 years, which began in 2001. This contract results in a significant potential nonperformance exposure with a single counterparty; however, this risk has been addressed and mitigated by the liquidated damages provision of the contract.

When they become operational, development projects at Sempra Global rely significantly on the ability of their suppliers to perform on long-term agreements and on our ability to enforce contract terms in the event of nonperformance. Also, the factors that we consider in evaluating a development project include negotiating customer and supplier agreements and, therefore, we rely on these agreements for future performance. We also may base our decision to go forward on development projects on these agreements.

As noted above under "Interest Rate Risk," we periodically enter into interest-rate swap agreements to moderate exposure to interest-rate changes and to lower the overall cost of borrowing. We would be exposed to interest-rate fluctuations on the underlying debt should a counterparty to the swap fail to perform.

Foreign Currency Rate Risk

We have investments in entities whose functional currency is not the U.S. dollar, exposing us to foreign exchange movements, primarily in Latin American currencies. For example, as a result of the devaluation of the Argentine peso that began at the end of 2001, Sempra Pipelines & Storage has reduced the carrying value of its Argentine investments downward by a cumulative total of \$270 million as of December 31, 2008. In addition, Sempra Pipelines & Storage had reduced the carrying value of other Latin American investments by a cumulative total of \$108 million as of December 31, 2008. These noncash adjustments continue to occur based on fluctuations in the functional currencies and generally do not affect net income, but affect other comprehensive income and accumulated other comprehensive income (loss). However, in 2006, the impairment of the Argentine investments reflected the cumulative effect of currency translation adjustments. We provide further discussion in Note 4 of the Notes to Consolidated Financial Statements.

The Mexican subsidiaries have U.S. dollar receivables and payables that give rise to foreign exchange movements for Mexican tax purposes. In addition, monetary assets and liabilities are adjusted for inflation for Mexican tax purposes. The fluctuations in foreign currency and inflation are subject to Mexican taxes and expose us to significant fluctuations in tax expense from changes in the exchange and inflation rates in Mexico.

Our primary objective in reducing foreign currency risk is to preserve the economic value of our overseas investments and to reduce net income volatility that would otherwise occur due to exchange-rate fluctuations.

Our net investment in our Latin American operating companies and the resulting cash flows are partially protected against normal exchange-rate fluctuations by rate-setting mechanisms that are intended to compensate for local inflation and currency exchange-rate fluctuations. In addition, we offset material cross-currency transactions and net income exposure through various means, including financial instruments and short-term investments.

Because we do not hedge our net investment in foreign countries, we are susceptible to volatility in other comprehensive income caused by exchange-rate fluctuations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, AND KEY NONCASH PERFORMANCE INDICATORS

Management views certain accounting policies as critical because their application is the most relevant, judgmental, and/or material to our financial position and results of operations, and/or because they require the use of material judgments and estimates.

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements. We discuss choices among alternative accounting policies that are material to our financial statements and information concerning significant estimates with the audit committee of the Sempra Energy board of directors.

The most critical policies, all of which are mandatory under generally accepted accounting principles in the United States of America and the regulations of the Securities and Exchange Commission, appear in the table below:

CRITICAL ACCOUNTING POLICIES	
SEMPRA ENERGY, SDG&E AND SOCIALGAS	
CONTINGENCIES	
Statement of Financial Accounting Standards (SFAS) 5, <i>Accounting for Contingencies</i>, establishes the amounts and timing of when we provide for contingent losses. We continuously assess potential loss contingencies for litigation claims, environmental remediation and other events.	
Assumptions & Approach Used	<p>We accrue losses for the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. For loss contingencies, we accrue the loss if:</p> <ul style="list-style-type: none"> § information is available indicating it is probable that a loss has been incurred, given the likelihood of uncertain future events, and § the amounts of the loss can be reasonably estimated. <p>SFAS 5 does not permit the accrual of contingencies that might result in gains.</p>
Effect if Different Assumptions Used	Details of our issues in this area are discussed in Note 16 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)**REGULATORY ACCOUNTING**

SFAS 71, *Accounting for the Effects of Certain Types of Regulation*, has a significant effect on the way the Sempra Utilities record assets and liabilities, and the related revenues and expenses that would not be recorded absent the principles in SFAS 71.

Assumptions & Approach Used	<p>The Sempra Utilities record a regulatory asset if it is probable that, through the ratemaking process, the utility will recover that asset from customers. Similarly, regulatory liabilities are recorded for amounts recovered in rates in advance of the expenditure. The Sempra Utilities review probabilities associated with regulatory balances whenever new events occur, such as:</p> <ul style="list-style-type: none"> § changes in the regulatory environment or the utility's competitive position § issuance of a regulatory commission order § passage of new legislation <p>To the extent that circumstances associated with regulatory balances change, the regulatory balances could be adjusted.</p>
Effect if Different Assumptions Used	<p>Details of the Sempra Utilities' regulatory assets and liabilities are discussed in Note 1 of the Notes to Consolidated Financial Statements.</p>

INCOME TAXES

SFAS 109, *Accounting for Income Taxes*, governs the way we provide for income taxes.

Assumptions & Approach Used	<p>Our income tax expense and related balance sheet amounts involve significant management estimates and judgments. Amounts of deferred income tax assets and liabilities, as well as current and noncurrent accruals, involve judgments and estimates of the timing and probability of recognition of income and deductions by taxing authorities. When we evaluate the anticipated resolution of income-tax issues, we consider</p> <ul style="list-style-type: none"> § past resolutions of the same or similar issue § the status of any income-tax examination in progress § positions taken by taxing authorities with other taxpayers with similar issues <p>The likelihood of deferred tax recovery is based on analyses of the deferred tax assets and our expectation of future taxable income, based on our strategic planning.</p>
Effect if Different Assumptions Used	<p>Actual income taxes could vary from estimated amounts because of:</p> <ul style="list-style-type: none"> § future impacts of various items including changes in tax laws § our financial condition in future periods § the resolution of various income tax issues between us and taxing authorities <p>We discuss details of our issues in this area in Note 8 of the Notes to Consolidated Financial Statements.</p>

SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)**INCOME TAXES (CONTINUED)**

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. FIN 48 addresses how an entity should recognize, measure, classify and disclose in its financial statements uncertain tax positions that it has taken or expects to take in an income tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Assumptions & Approach Used	For a position to qualify for benefit recognition under FIN 48, the position must have at least a "more likely than not" chance of being sustained (based on the position's technical merits) upon challenge by the respective authorities. The term "more likely than not" means a likelihood of more than 50 percent. If we do not have a more likely than not position with respect to a tax position, then we may not recognize any of the potential tax benefit associated with the position. A tax position that meets the "more likely than not" recognition shall be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon the effective resolution of the tax position.
Effect if Different Assumptions Used	Unrecognized tax benefits involve management's judgment regarding the likelihood of the benefit being sustained. The final resolution of uncertain tax positions could result in adjustments to recorded amounts and may affect our results of operations, financial position and cash flows. We discuss additional information related to accounting for uncertainty in income taxes in Note 8 of the Notes to Consolidated Financial Statements.

DERIVATIVES

SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and related Emerging Issues Task Force Issues govern the accounting requirements for derivatives.

Assumptions & Approach Used	We value derivative instruments at fair value on the balance sheet. Depending on the purpose for the contract and the applicability of hedge accounting, the impact of instruments may be offset in earnings, on the balance sheet, or in other comprehensive income. We also use normal purchase or sale accounting for certain contracts. As discussed elsewhere in this report, whenever possible, we use exchange quotations or other third-party pricing to estimate fair values; if no such data is available, we use internally developed models and other techniques. The assumed collectibility of derivative assets and receivables considers <ul style="list-style-type: none"> § events specific to a given counterparty § the tenor of the transaction § the credit-worthiness of the counterparty
Effect if Different Assumptions Used	The application of hedge accounting to certain derivatives and the normal purchase or sale election is made on a contract-by-contract basis. Using hedge accounting or the normal purchase or sale election in a different manner could materially impact our results of operations. The effects of derivatives accounting have a significant impact on Sempra Energy's consolidated balance sheet but have no significant effect on the Sempra Utilities' results of operations because of the principles in SFAS 71 and the application of the normal purchase or sale election. We provide details of our financial instruments in Note 11 of the Notes to Consolidated Financial Statements.

DEFINED BENEFIT PLANS

We have funded and unfunded noncontributory defined benefit plans that together cover substantially all of our employees. We also have other postretirement benefit plans covering substantially all of our employees. We account for our pension and other postretirement benefit plans under SFAS 87, *Employers' Accounting for Pensions*, SFAS 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, SFAS 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*, SFAS 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits - an amendment of FASB Statements No. 87, 88, and 106*, and under SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*.

<p>Assumptions & Approach Used</p>	<p>To measure our pension and postretirement obligations, costs and liabilities, we rely on several assumptions. We consider current market conditions, including interest rates, in making these assumptions. We annually review these assumptions prior to the beginning of each year and update when appropriate.</p> <p>The critical assumptions used to develop the required estimates include the following key factors:</p> <ul style="list-style-type: none"> § discount rate § expected return on plan assets § health-care cost trend rates § mortality rates § rate of compensation increases § payout elections (lump sum or annuity)
<p>Effect if Different Assumptions Used</p>	<p>The actuarial assumptions we use may differ materially from actual results due to:</p> <ul style="list-style-type: none"> § return on plan assets § changing market and economic conditions § higher or lower withdrawal rates § longer or shorter participant life spans § more or fewer lump sum versus annuity payout elections made by plan participants <p>These differences, other than those related to the Sempra Utilities plans, where rate recovery offsets any effects of the assumptions on net income, may result in a significant impact to the amount of pension and postretirement benefit expense we record. For the remaining plans, the approximate annual effect on net income of a 0.25 percent point increase or decrease in the assumed discount rate would be \$2 million and a 0.25 percent point increase or decrease in the assumed rate of return on plan assets would be less than \$1 million.</p> <p>We provide information about the impact of increases and decreases in the health-care cost trend rate in Note 9 of the Notes to Consolidated Financial Statements.</p>

SEMPRA ENERGY**IMPAIRMENT TESTING OF LONG-LIVED ASSETS**

SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires that long-lived assets be evaluated as necessary for impairment whenever events or changes in circumstances indicate that the carrying amount of any such assets may not be recoverable or the assets meet the held-for-sale criteria under SFAS 144.

Assumptions & Approach Used	Whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable, we apply SFAS 144 to estimate the fair value of our long-lived assets. For these estimates, we may consider data from multiple valuation methods, including data from market participants. We exercise judgment to estimate the future cash flows and the useful lives of long-lived assets and to determine management's intent to use the assets. Management's intent to use or dispose of assets is subject to re-evaluation and can change over time.
Effect if Different Assumptions Used	The fair value of long-lived assets can vary if differing estimates and assumptions are used in the applied valuation techniques. We discuss impairment of long-lived assets in Note 1 of the Notes to Consolidated Financial Statements.

CARRYING VALUE OF EQUITY METHOD INVESTMENTS

Under Accounting Principles Board (APB) Opinion 18, *The Equity Method of Accounting for Investments in Common Stock* (APB 18), investments are generally accounted for under the equity method when we have an ownership interest of 20 to 50 percent. For investments accounted for under the equity method of accounting, the premium or excess cost over underlying fair value of net assets is referred to as equity method goodwill. In accordance with APB 18, as amended by SFAS 142, *Goodwill and Other Intangible Assets*, equity method goodwill is not subject to amortization but rather to impairment testing, as is the equity method investment overall.

Assumptions & Approach Used	<p>We consider whether the fair value of each equity investment as a whole, not the underlying net assets, has declined and whether that decline is other than temporary. Therefore, we re-evaluate the amount at which we carry the excess of cost over fair value of net assets accounted for under the equity method. We discuss unamortized goodwill related to unconsolidated subsidiaries in Note 1 of the Notes to Consolidated Financial Statements.</p> <p>When calculating estimates of fair or realizable values, we consider whether we intend to sell the investment or hold it. For certain held investments, critical assumptions include</p> <ul style="list-style-type: none"> § the prospects for an energy trading enterprise § the availability and costs of natural gas § competing fuels (primarily propane) and electricity <p>Sempra Pipelines & Storage owns non-controlling interests in two Argentine natural gas distribution companies. In view of continuing disputes with the Argentine government, we decided to sell our investments in these companies in December 2006. We recorded a noncash impairment charge to net income of \$221 million in the fourth quarter of 2006.</p>
Effect if Different Assumptions Used	<p>We estimated the fair value of our Argentine investments using primarily an income-based valuation approach, including risk assumptions for similar investments. The risk assumptions applied by other market participants to value the investments could vary significantly, which could result in a different impairment charge, and ultimately additional loss or gain upon sale.</p> <p>We provide additional details in Note 4 of the Notes to Consolidated Financial Statements.</p>

KEY NONCASH PERFORMANCE INDICATORS

A discussion of key noncash performance indicators related to each business unit follows:

Sempra Utilities

Key noncash performance indicators include number of customers, and natural gas volumes and electricity sold. Additional noncash performance indicators include goals related to safety, customer service, customer reputation, environmental considerations, on-time and on-budget completion of major projects and initiatives, and in the case of SDG&E, electric reliability. We discuss natural gas volumes and electricity sold in "Results of Operations – Changes in Revenues, Costs and Earnings" above.

Sempra Commodities

Prior to the sale of our commodities-marketing businesses to RBS Sempra Commodities as discussed in Note 3, Sempra Commodities did not use noncash performance factors. Its key indicators were profit margins by product line and by geographic area.

Sempra Generation

Key noncash performance indicators include plant availability factors at the generating plants. For competitive reasons, Sempra Generation does not disclose its plant availability factors. Additional noncash performance indicators include goals related to safety, environmental considerations, and fixed and variable operating and maintenance costs.

Sempra Pipelines & Storage

Key noncash performance indicators for Sempra Pipelines & Storage's consolidated operations include natural gas sales volume, facility availability, capacity utilization, and for some Mexican pipeline operations, customer count. We discuss these above in "Our Business" and "Factors Influencing Future Performance." Additional noncash performance indicators include goals related to safety, environmental considerations, and regulatory compliance.

Sempra LNG

Key noncash performance indicators include plant availability and capacity utilization. We discuss these above in "Our Business" and "Factors Influencing Future Performance." Additional noncash performance indicators include goals related to safety, environmental considerations, and on-time and on-budget completion of development projects.

NEW ACCOUNTING STANDARDS

We discuss the relevant pronouncements that have recently become effective and have had or may have a significant effect on our financial statements in Note 2 of the Notes to Consolidated Financial Statements.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are necessarily based upon assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the date of this report.

In this report, when we use words such as "believes," "expects," "anticipates," "plans," "estimates," "projects," "contemplates," "intends," "depends," "should," "could," "would," "may," "potential," "target," "goals," or similar expressions, or when we discuss our strategy, plans or intentions, we are making forward-looking statements.

Factors, among others, that could cause our actual results and future actions to differ materially from those described in forward-looking statements include

- § local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments;

- § actions by the California Public Utilities Commission, the California State Legislature, the California Department of Water Resources, the Federal Energy Regulatory Commission, the Federal Reserve Board, and other regulatory and governmental bodies in the United States, the United Kingdom and other countries;

- § capital markets conditions and inflation, interest and exchange rates;

- § energy and trading markets, including the timing and extent of changes and volatility in commodity prices;

- § the availability of electric power, natural gas and liquefied natural gas;

- § weather conditions and conservation efforts;

- § war and terrorist attacks;

- § business, regulatory, environmental and legal decisions and requirements;

- § the status of deregulation of retail natural gas and electricity delivery;

- § the timing and success of business development efforts;

- § the resolution of litigation; and

- § other uncertainties, all of which are difficult to predict and many of which are beyond our control.

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described in this report and other reports that we file with the Securities and Exchange Commission.

COMMON STOCK DATA

SEMPRA ENERGY COMMON STOCK

Our common stock is traded on the New York Stock Exchange. At February 12, 2009, there were 46,000 record holders of our common stock.

The following table shows Sempra Energy quarterly common stock data:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008				
Market price				
High	\$63.00	\$59.96	\$58.99	\$51.21
Low	\$48.58	\$53.02	\$43.35	\$34.29
2007				
Market price				
High	\$63.03	\$66.38	\$62.25	\$64.21
Low	\$54.73	\$57.04	\$50.95	\$57.62

We declared dividends of \$0.32 per share in the first quarter of 2008 and \$0.35 per share in each of the remaining quarters of 2008. We declared dividends of \$0.31 per share in each quarter of 2007.

PE, SOCALGAS AND SDG&E COMMON STOCK

Sempra Energy owns all of PE's issued and outstanding common stock. PE owns all of the common stock of SoCalGas. Enova Corporation, a wholly owned subsidiary of Sempra Energy, owns all of SDG&E's issued and outstanding common stock.

Information concerning dividend declarations for PE, SoCalGas and SDG&E is included in each of their "Statements of Consolidated Comprehensive Income and Changes in Shareholders' Equity" set forth in the Consolidated Financial Statements.

DIVIDEND RESTRICTIONS

The payment and the amount of future dividends for Sempra Energy, SDG&E, PE, and SoCalGas are within the discretion of their boards of directors. As a result of its projected capital expenditure program, SDG&E has elected to suspend the payment of dividends on its common stock to Sempra Energy over the last three years, and future common dividends from SDG&E, PE and SoCalGas may be limited to reduce the amount of debt financing required during periods of increased capital expenditures. The CPUC's regulation of the Sempra Utilities' capital structures limits the amounts that the Sempra Utilities can pay us in the form of loans and dividends.

PERFORMANCE GRAPH -- COMPARATIVE TOTAL SHAREHOLDER RETURNS

The following graph (Figure 2) compares the percentage change in the cumulative total shareholder return on Sempra Energy common stock for the five-year period ending December 31, 2008, with the performance over the same period of the Standard & Poor's 500 Index and the Standard & Poor's 500 Utilities Index.

These returns were calculated assuming an initial investment of \$100 in our common stock, the S&P 500 Index and the S&P 500 Utilities Index on December 31, 2003, and the reinvestment of all dividends.

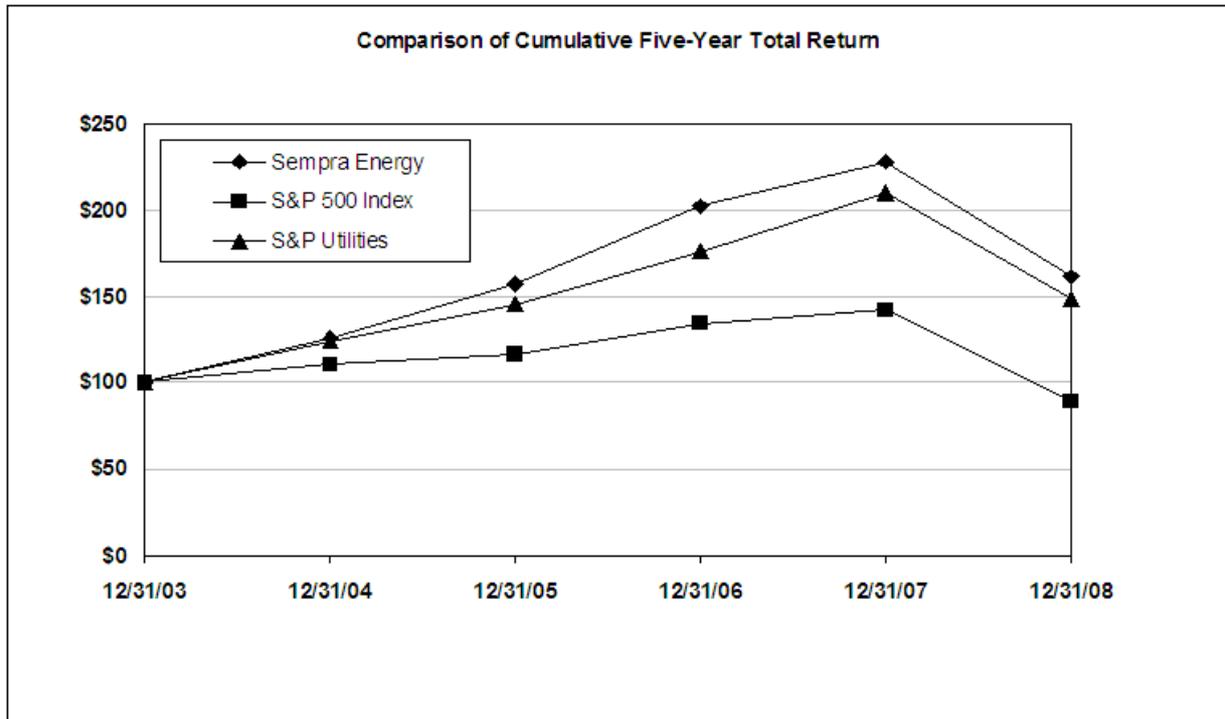


Figure 2: Comparison of Cumulative Five-Year Total Return

FIVE-YEAR SUMMARIES

The following tables present selected financial data of Sempra Energy, SDG&E, PE and SoCalGas for the five years ended December 31, 2008. The data is derived from the audited consolidated financial statements of each company. You should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes contained in this Annual Report.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA FOR SEMPRA ENERGY

(In millions, except for per share amounts)

	At December 31 or for the years then ended				
	2008	2007	2006	2005	2004
Sempra Energy Consolidated					
Revenues					
Sempra Utilities:					
Natural gas	\$ 5,419	\$ 4,869	\$ 4,763	\$ 5,253	\$ 4,537
Electric	2,553	2,184	2,136	1,789	1,658
Sempra Global and parent	2,786	4,385	4,862	4,470	3,039
Total revenues	<u>\$ 10,758</u>	<u>\$ 11,438</u>	<u>\$ 11,761</u>	<u>\$ 11,512</u>	<u>\$ 9,234</u>
Income from continuing operations	\$ 1,113	\$ 1,125	\$ 1,091	\$ 913	\$ 915
Net income	\$ 1,113	\$ 1,099	\$ 1,406	\$ 920	\$ 895
Income per common share from continuing operations:					
Basic	\$ 4.50	\$ 4.34	\$ 4.25	\$ 3.71	\$ 4.01
Diluted	\$ 4.43	\$ 4.26	\$ 4.17	\$ 3.62	\$ 3.92
Net income per common share:					
Basic	\$ 4.50	\$ 4.24	\$ 5.48	\$ 3.74	\$ 3.92
Diluted	\$ 4.43	\$ 4.16	\$ 5.38	\$ 3.65	\$ 3.83
Dividends declared per common share	\$ 1.37	\$ 1.24	\$ 1.20	\$ 1.16	\$ 1.00
Return on common equity	13.6%	13.9%	20.6%	16.7%	20.5%
Effective income tax rate	29%	34%	33%	4%	18%
Price range of common shares	\$ 63.00- 34.29	\$ 66.38- 50.95	\$ 57.35- 42.90	\$ 47.86- 35.53	\$ 37.93- 29.51
Weighted average rate base:					
SoCalGas	\$ 2,702	\$ 2,642	\$ 2,477	\$ 2,386	\$ 2,351
SDG&E	\$ 4,050	\$ 3,846	\$ 3,474	\$ 2,902	\$ 2,755
AT DECEMBER 31					
Current assets*	\$ 2,476	\$ 9,964	\$ 10,766	\$ 12,827	\$ 9,156
Total assets*	\$ 26,400	\$ 28,717	\$ 27,699	\$ 28,246	\$ 23,697
Current liabilities*	\$ 3,612	\$ 9,020	\$ 9,099	\$ 11,253	\$ 9,033
Long-term debt (excludes current portion)	\$ 6,544	\$ 4,553	\$ 4,525	\$ 4,815	\$ 4,182
Short-term debt**	\$ 913	\$ 1,071	\$ 933	\$ 1,141	\$ 783
Trust preferred securities	\$ --	\$ --	\$ --	\$ --	\$ 200***
Shareholders' equity	\$ 7,969	\$ 8,339	\$ 7,511	\$ 6,160	\$ 4,865
Common shares outstanding	243.3	261.2	262.0	257.2	234.2
Book value per share	<u>\$ 32.75</u>	<u>\$ 31.93</u>	<u>\$ 28.67</u>	<u>\$ 23.95</u>	<u>\$ 20.77</u>

* As adjusted in 2004 through 2007 for the retrospective adoption of FASB Staff Position FIN 39-1.

** Includes long-term debt due within one year.

*** We redeemed these securities in February 2005.

On April 1, 2008, we sold our commodities-marketing businesses into a joint venture, and began accounting for these businesses under the equity method. We discuss this transaction further in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

We discuss discontinued operations in Note 5 of the Notes to Consolidated Financial Statements, and litigation and other contingencies in Note 16 of the Notes to Consolidated Financial Statements.

FIVE-YEAR SUMMARIES (Cont'd)

FIVE-YEAR SUMMARIES OF SELECTED FINANCIAL DATA FOR SDG&E, PE AND SOCALGAS

(Dollars in millions)

	At December 31 or for the years then ended				
	2008	2007	2006	2005	2004
SDG&E					
Income Statement Data:					
Operating revenues	\$ 3,251	\$ 2,852	\$ 2,785	\$ 2,512	\$ 2,274
Operating income	\$ 570	\$ 500	\$ 477	\$ 393	\$ 393
Dividends on preferred stock	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5
Earnings applicable to common shares	\$ 339	\$ 283	\$ 237	\$ 262	\$ 208
Balance Sheet Data:					
Total assets*	\$ 9,079	\$ 8,499	\$ 7,794	\$ 7,489	\$ 6,834
Long-term debt (excludes current portion)	\$ 2,142	\$ 1,958	\$ 1,638	\$ 1,455	\$ 1,022
Short-term debt**	\$ 2	\$ --	\$ 138	\$ 66	\$ 66
Preferred stock subject to mandatory redemption	\$ --	\$ 14	\$ 17	\$ 19	\$ 21
Shareholders' equity	\$ 2,621	\$ 2,279	\$ 1,994	\$ 1,562	\$ 1,376
Pacific Enterprises					
Income Statement Data:					
Operating revenues	\$ 4,768	\$ 4,282	\$ 4,181	\$ 4,617	\$ 3,997
Operating income	\$ 435	\$ 436	\$ 439	\$ 347	\$ 407
Dividends on preferred stock	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4
Earnings applicable to common shares	\$ 248	\$ 238	\$ 235	\$ 221	\$ 232
Balance Sheet Data:					
Total assets*	\$ 7,907	\$ 6,802	\$ 6,841	\$ 6,531	\$ 6,088
Long-term debt (excludes current portion)	\$ 1,270	\$ 1,113	\$ 1,107	\$ 1,100	\$ 864
Short-term debt**	\$ 100	\$ --	\$ --	\$ 96	\$ 30
Shareholders' equity	\$ 1,940	\$ 1,916	\$ 1,930	\$ 1,834	\$ 1,814
SoCalGas					
Income Statement Data:					
Operating revenues	\$ 4,768	\$ 4,282	\$ 4,181	\$ 4,617	\$ 3,997
Operating income	\$ 434	\$ 437	\$ 439	\$ 347	\$ 409
Dividends on preferred stock	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Earnings applicable to common shares	\$ 244	\$ 230	\$ 223	\$ 211	\$ 232
Balance Sheet Data:					
Total assets*	\$ 7,351	\$ 6,406	\$ 6,359	\$ 6,007	\$ 5,636
Long-term debt (excludes current portion)	\$ 1,270	\$ 1,113	\$ 1,107	\$ 1,100	\$ 864
Short-term debt**	\$ 100	\$ --	\$ --	\$ 96	\$ 30
Shareholders' equity	\$ 1,490	\$ 1,470	\$ 1,490	\$ 1,417	\$ 1,407

* As adjusted in 2004 through 2007 for the retrospective adoption of FASB Staff Position FIN 39-1.

** Includes long-term debt due within one year.

We do not provide per-share data for SDG&E, Pacific Enterprises and SoCalGas, since each of them is directly or indirectly wholly owned by Sempra Energy. We discuss litigation and other contingencies in Note 16 of the Notes to Consolidated Financial Statements.

CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Sempra Energy, SDG&E, PE and SoCalGas have designed and maintain disclosure controls and procedures to ensure that information required to be disclosed in their respective reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the management of each company, including each respective Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, the management of each company recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives; therefore, the management of each company applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures.

Under the supervision and with the participation of management, including the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E, PE and SoCalGas, each company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of December 31, 2008, the end of the period covered by this report. Based on these evaluations, the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E, PE and SoCalGas concluded that their respective company's disclosure controls and procedures were effective at the reasonable assurance level.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

SEMPRA ENERGY, SDG&E, PE, SOCIALGAS

The respective management of each company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of the management of each company, including each company's principal executive officer and principal financial officer, the effectiveness of each company's internal control over financial reporting was evaluated based on the framework in *Internal Control - -- Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluations, each company concluded that its internal control over financial reporting was effective as of December 31, 2008. Deloitte & Touche, LLP audited the effectiveness of each company's internal control over financial reporting as of December 31, 2008, as stated in their reports, which are included in this Annual Report.

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

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

SEMPRA ENERGY

To the Board of Directors and Shareholders of Sempra Energy:

We have audited the internal control over financial reporting of Sempra Energy and subsidiaries (the "Company") as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated February 23, 2009, expressed an unqualified opinion on those financial statements.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

To the Board of Directors and Shareholders of Sempra Energy:

We have audited the accompanying consolidated balance sheets of Sempra Energy and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income and changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sempra Energy and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

To the Board of Directors and Shareholders of San Diego Gas & Electric Company:

We have audited the internal control over financial reporting of San Diego Gas & Electric Company and subsidiary (the "Company") as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated February 23, 2009, expressed an unqualified opinion on those financial statements.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

To the Board of Directors and Shareholders of San Diego Gas & Electric Company:

We have audited the accompanying consolidated balance sheets of San Diego Gas & Electric Company and subsidiary (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income and changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of San Diego Gas & Electric Company and subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

To the Board of Directors and Shareholders of Pacific Enterprises:

We have audited the internal control over financial reporting of Pacific Enterprises and subsidiaries (the "Company") as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated February 23, 2009, expressed an unqualified opinion on those financial statements.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

To the Board of Directors and Shareholders of Pacific Enterprises:

We have audited the accompanying consolidated balance sheets of Pacific Enterprises and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income and changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pacific Enterprises and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

To the Board of Directors and Shareholders of Southern California Gas Company:

We have audited the internal control over financial reporting of Southern California Gas Company and subsidiaries (the "Company") as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated February 23, 2009, expressed an unqualified opinion on those financial statements.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

To the Board of Directors and Shareholders of Southern California Gas Company:

We have audited the accompanying consolidated balance sheets of Southern California Gas Company and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income and changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Southern California Gas Company and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 23, 2009

SEMPRA ENERGY
STATEMENTS OF CONSOLIDATED INCOME
(Dollars in millions, except per share amounts)

	Years ended December 31,		
	2008	2007	2006
REVENUES			
Sempra Utilities	\$ 7,972	\$ 7,053	\$ 6,899
Sempra Global and parent	2,786	4,385	4,862
Total revenues	10,758	11,438	11,761
EXPENSES AND OTHER INCOME			
Sempra Utilities:			
Cost of natural gas	(3,244)	(2,763)	(2,756)
Cost of electric fuel and purchased power	(900)	(699)	(721)
Sempra Global and parent:			
Cost of natural gas, electric fuel and purchased power	(1,671)	(1,302)	(1,221)
Other cost of sales	(182)	(988)	(1,468)
Operation and maintenance	(2,536)	(3,032)	(2,879)
Depreciation and amortization	(687)	(686)	(657)
Franchise fees and other taxes	(312)	(295)	(275)
Gains on sale of assets	114	6	1
Equity earnings (losses):			
RBS Sempra Commodities LLP	383	--	--
Other	37	(9)	338
Other income (expense), net	(54)	90	43
Interest income	45	72	109
Interest expense	(253)	(272)	(351)
Preferred dividends of subsidiaries	(10)	(10)	(10)
Income from continuing operations before income taxes and equity earnings of certain unconsolidated subsidiaries	1,488	1,550	1,914
Income tax expense	(438)	(524)	(641)
Equity earnings (losses), net of income tax	63	99	(182)
Income from continuing operations	1,113	1,125	1,091
Discontinued operations, net of income tax	--	(26)	315
Net income	\$ 1,113	\$ 1,099	\$ 1,406
Basic earnings per share:			
Income from continuing operations	\$ 4.50	\$ 4.34	\$ 4.25
Discontinued operations, net of income tax	--	(0.10)	1.23
Net income	\$ 4.50	\$ 4.24	\$ 5.48
Weighted-average number of shares outstanding (thousands)	247,387	259,269	256,477
Diluted earnings per share:			
Income from continuing operations	\$ 4.43	\$ 4.26	\$ 4.17
Discontinued operations, net of income tax	--	(0.10)	1.21
Net income	\$ 4.43	\$ 4.16	\$ 5.38
Weighted-average number of shares outstanding (thousands)	251,159	264,004	261,368
Dividends declared per share of common stock	\$ 1.37	\$ 1.24	\$ 1.20

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	December 31, 2008	December 31, 2007*
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 331	\$ 668
Short-term investments	176	--
Restricted cash	27	1
Trade accounts receivable, net	903	960
Other accounts and notes receivable, net	78	114
Income taxes receivable	195	99
Deferred income taxes	31	247
Trading-related receivables and deposits, net	--	2,719
Derivative trading instruments	--	2,170
Commodities owned	--	2,231
Inventories	320	224
Regulatory assets	121	106
Fixed-price contracts and other derivatives	160	28
Other	134	397
Total current assets	2,476	9,964
Investments and other assets:		
Regulatory assets arising from fixed-price contracts and other derivatives	264	309
Regulatory assets arising from pension and other postretirement benefit obligations	1,188	162
Other regulatory assets	534	460
Nuclear decommissioning trusts	577	739
Investment in RBS Sempra Commodities LLP	2,082	--
Other investments	1,166	1,243
Goodwill and other intangible assets	539	179
Sundry	709	777
Total investments and other assets	7,059	3,869
Property, plant and equipment:		
Property, plant and equipment	23,153	20,917
Less accumulated depreciation and amortization	(6,288)	(6,033)
Property, plant and equipment, net	16,865	14,884
Total assets	\$ 26,400	\$ 28,717

See Notes to Consolidated Financial Statements.

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

SEMPRA ENERGY
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	December 31, 2008	December 31, 2007*
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 503	\$ 1,064
Accounts payable – trade	606	1,374
Accounts payable – other	250	189
Due to unconsolidated affiliates	38	60
Trading-related payables	--	2,265
Derivative trading instruments	--	1,672
Commodities sold with agreement to repurchase	--	500
Dividends and interest payable	156	145
Accrued compensation and benefits	280	265
Regulatory balancing accounts, net	335	481
Current portion of long-term debt	410	7
Fixed-price contracts and other derivatives	180	53
Customer deposits	170	143
Other	684	802
Total current liabilities	3,612	9,020
Long-term debt	6,544	4,553
Deferred credits and other liabilities:		
Due to unconsolidated affiliate	102	102
Customer advances for construction	155	153
Plan and other postretirement benefit obligations, net of plan assets	1,487	434
Deferred income taxes	946	531
Deferred investment tax credits	57	61
Regulatory liabilities arising from removal obligations	2,430	2,522
Asset retirement obligations	1,159	1,129
Other regulatory liabilities	219	265
Fixed-price contracts and other derivatives	392	332
Deferred credits and other	909	949
Total deferred credits and other liabilities	7,856	6,478
Preferred stock of subsidiaries	179	179
Minority interests	240	148
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock (50 million shares authorized; none issued)	--	--
Common stock (750 million shares authorized; 243 million and 261 million shares outstanding at December 31, 2008 and December 31, 2007, respectively; no par value)	2,265	3,198
Retained earnings	6,235	5,464
Deferred compensation	(18)	(22)
Accumulated other comprehensive income (loss)	(513)	(301)
Total shareholders' equity	7,969	8,339
Total liabilities and shareholders' equity	\$ 26,400	\$ 28,717

See Notes to Consolidated Financial Statements.

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

SEMPRA ENERGY
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,113	\$ 1,099	\$ 1,406
Adjustments to reconcile net income to net cash provided by operating activities:			
Discontinued operations	--	26	(315)
Depreciation and amortization	687	686	657
Gains on sale of assets, net	(114)	(6)	(1)
Deferred income taxes and investment tax credits	324	149	77
Noncash rate-reduction bond expense	--	55	60
Equity earnings	(483)	(90)	(156)
Other	141	46	47
Quasi-reorganization resolution	--	--	12
Net changes in other working capital components	(483)	25	(183)
Distributions from RBS Sempra Commodities LLP	85	--	--
Changes in other assets	(15)	22	20
Changes in other liabilities	(74)	79	42
Net cash provided by continuing operations	1,181	2,091	1,666
Net cash used in discontinued operations	--	(3)	(37)
Net cash provided by operating activities	1,181	2,088	1,629
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(2,061)	(2,011)	(1,907)
Proceeds from sale of assets from continuing operations, net of cash sold	2,295	103	40
Expenditures for investments and acquisition of businesses, net of cash acquired	(2,675)	(121)	(257)
Distributions from investments	34	18	104
Purchases of nuclear decommissioning and other trust assets	(485)	(646)	(546)
Proceeds from sales by nuclear decommissioning and other trusts	469	613	503
Dividends received from equity method investments	--	--	431
Decrease in notes receivable from unconsolidated affiliates	60	--	--
Other	(23)	(29)	(27)
Net cash used in continuing operations	(2,386)	(2,073)	(1,659)
Net cash provided by discontinued operations	--	--	793
Net cash used in investing activities	(2,386)	(2,073)	(866)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(339)	(316)	(283)
Issuances of common stock	18	40	97
Repurchases of common stock	(1,018)	(185)	(37)
Issuances of long-term debt	1,706	404	552
Payments on long-term debt	(79)	(1,072)	(263)
Increase (decrease) in short-term debt, net	564	812	(791)
Financing transaction related to Sempra Financial	--	--	83
Other	16	21	28
Net cash provided by (used in) continuing operations	868	(296)	(614)
Net cash provided by discontinued operations	--	--	2
Net cash provided by (used in) financing activities	868	(296)	(612)
Increase (decrease) in cash and cash equivalents	(337)	(281)	151
Cash and cash equivalents, January 1	668	920	769
Cash assumed in connection with FIN 46(R) initial consolidation	--	29	--
Cash and cash equivalents, December 31	\$ 331	\$ 668	\$ 920

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
CHANGES IN OTHER WORKING CAPITAL COMPONENTS			
(Excluding cash and cash equivalents, and debt due within one year)			
Accounts and notes receivable	\$ 110	\$ (63)	\$ 94
Net trading assets	(4)	303	(543)
Income taxes, net	13	(73)	(51)
Inventories	(75)	(9)	(3)
Regulatory balancing accounts	(138)	120	170
Regulatory assets and liabilities	1	--	4
Other current assets	71	(109)	(2)
Accounts payable	(526)	(82)	227
Other current liabilities	65	(62)	(79)
Net changes in other working capital components	<u>\$ (483)</u>	<u>\$ 25</u>	<u>\$ (183)</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	<u>\$ 233</u>	<u>\$ 380</u>	<u>\$ 337</u>
Income tax payments, net of refunds	<u>\$ 114</u>	<u>\$ 443</u>	<u>\$ 601</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Acquisition of business:			
Assets acquired	\$ 1,307	\$ --	\$ --
Cash paid, net of cash acquired	(495)	--	--
Liabilities assumed	<u>\$ 812</u>	<u>\$ --</u>	<u>\$ --</u>
Increase (decrease) in accounts payable from investments in property, plant and equipment	<u>\$ (9)</u>	<u>\$ 81</u>	<u>\$ (43)</u>
Dividends declared but not paid	<u>\$ 88</u>	<u>\$ 84</u>	<u>\$ 82</u>
Fair value of stock received for services rendered	<u>\$ --</u>	<u>\$ 32</u>	<u>\$ --</u>
Fair value of stock received for sale of investments	<u>\$ --</u>	<u>\$ 26</u>	<u>\$ --</u>

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2008, 2007 and 2006

<i>(Dollars in millions)</i>	Comprehensive Income	Common Stock	Retained Earnings	Deferred Compensation Relating to ESOP	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2005		\$ 2,958	\$ 3,588	\$ (28)	\$ (358)	\$ 6,160
Net income	\$ 1,406		1,406			1,406
Comprehensive income adjustments:						
Foreign currency translation adjustments	(12)				(12)	(12)
Available-for-sale securities	18				18	18
Pension adjustment	(7)				(7)	(7)
Financial instruments	8				8	8
Comprehensive income	<u>\$ 1,413</u>					
Adoption of FASB Statement No. 158					(39)	(39)
Adoption of FASB Statement No. 123(R)		96				96
Common stock dividends declared			(313)			(313)
Quasi-reorganization adjustment		13				13
Issuance of common stock		175				175
Tax benefit related to share-based compensation		32				32
Repurchase of common stock		(37)				(37)
Common stock released from ESOP		8		3		11
Balance at December 31, 2006		3,245	4,681	(25)	(390)	7,511
Adoption of FASB Statement No. 157			12			12
Adoption of FIN 48			(2)			(2)
Net income	\$ 1,099		1,099			1,099
Comprehensive income adjustments:						
Foreign currency translation adjustments	38				38	38
Available-for-sale securities	10				10	10
Pension and other post retirement benefits	15				15	15
Financial instruments	26				26	26
Comprehensive income	<u>\$ 1,188</u>					
Share-based compensation expense		43				43
Common stock dividends declared			(326)			(326)
Quasi-reorganization adjustment		(2)				(2)
Issuance of common stock		62				62
Tax benefit related to share-based compensation		26				26
Repurchase of common stock		(185)				(185)
Common stock released from ESOP		9		3		12
Balance at December 31, 2007		3,198	5,464	(22)	(301)	8,339
Net income	\$ 1,113		1,113			1,113
Comprehensive income adjustments:						
Foreign currency translation adjustments	(140)				(140)	(140)
Available-for-sale securities	(26)				(26)	(26)
Pension and other postretirement benefits	(30)				(30)	(30)
Financial instruments	(16)				(16)	(16)
Comprehensive income	<u>\$ 901</u>					
Share-based compensation expense		49				49
Common stock dividends declared			(342)			(342)
Issuance of common stock		18				18
Tax benefit related to share-based compensation		6				6
Repurchase of common stock		(1,018)				(1,018)
Common stock released from ESOP		12		4		16
Balance at December 31, 2008		\$ 2,265	\$ 6,235	\$ (18)	\$ (513)	\$ 7,969

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
STATEMENTS OF CONSOLIDATED INCOME
(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
Operating revenues			
Electric	\$ 2,562	\$ 2,194	\$ 2,147
Natural gas	689	658	638
Total operating revenues	<u>3,251</u>	<u>2,852</u>	<u>2,785</u>
Operating expenses			
Cost of electric fuel and purchased power	900	699	721
Cost of natural gas	415	392	380
Operation and maintenance	913	807	777
Depreciation and amortization	298	301	291
Franchise fees and other taxes	158	155	140
Gains on sale of assets	(3)	(2)	(1)
Total operating expenses	<u>2,681</u>	<u>2,352</u>	<u>2,308</u>
Operating income	570	500	477
Other income, net	25	11	8
Interest income	6	8	6
Interest expense	(96)	(96)	(97)
Income before income taxes	<u>505</u>	<u>423</u>	<u>394</u>
Income tax expense	<u>161</u>	<u>135</u>	<u>152</u>
Net income	344	288	242
Preferred dividend requirements	5	5	5
Earnings applicable to common shares	<u>\$ 339</u>	<u>\$ 283</u>	<u>\$ 237</u>

See Notes to Consolidated Financial Statements.

**SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

	December 31, 2008	December 31, 2007 *
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19	\$ 158
Short-term investments	24	--
Accounts receivable – trade	225	207
Accounts receivable – other	30	49
Due from unconsolidated affiliates	29	22
Income taxes receivable	22	56
Deferred income taxes	17	67
Inventories	62	113
Regulatory assets arising from fixed-price contracts and other derivatives	94	52
Other regulatory assets	8	14
Fixed-price contracts and other derivatives	39	18
Other	15	34
Total current assets	584	790
Other assets:		
Due from unconsolidated affiliate	4	5
Deferred taxes recoverable in rates	369	312
Regulatory assets arising from fixed-price contracts and other derivatives	264	309
Regulatory assets arising from pensions and other postretirement benefit obligations	393	162
Other regulatory assets	59	48
Nuclear decommissioning trusts	577	739
Sundry	154	123
Total other assets	1,820	1,698
Property, plant and equipment:		
Property, plant and equipment	9,095	8,282
Less accumulated depreciation and amortization	(2,420)	(2,271)
Property, plant and equipment, net	6,675	6,011
Total assets	\$ 9,079	\$ 8,499

See Notes to Consolidated Financial Statements.

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

**SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

December 31, 2008 December 31, 2007
*

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 261	\$ 290
Due to unconsolidated affiliates	1	10
Regulatory balancing accounts, net	114	298
Customer deposits	53	52
Fixed-price contracts and other derivatives	77	52
Accrued compensation and benefits	105	98
Mandatorily redeemable preferred securities	--	14
Current portion of long-term debt	2	--
Other	163	161
Total current liabilities	<u>776</u>	<u>975</u>

Long-term debt

2,142 1,958

Deferred credits and other liabilities:

Customer advances for construction	26	33
Pension and other postretirement benefit obligations, net of plan assets	419	190
Deferred income taxes	628	506
Deferred investment tax credits	26	29
Regulatory liabilities arising from removal obligations	1,212	1,335
Asset retirement obligations	550	554
Fixed-price contracts and other derivatives	347	329
Deferred credits and other	204	176
Total deferred credits and other liabilities	<u>3,412</u>	<u>3,152</u>

Minority interest

128 135

Commitments and contingencies (Note 16)

Shareholders' equity:

Preferred stock not subject to mandatory redemption	79	79
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)	1,138	1,138
Retained earnings	1,417	1,078
Accumulated other comprehensive income (loss)	(13)	(16)
Total shareholders' equity	<u>2,621</u>	<u>2,279</u>

Total liabilities and shareholders' equity **\$ 9,079** **\$ 8,499**

See Notes to Consolidated Financial Statements.

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

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 344	\$ 288	\$ 242
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	298	301	291
Deferred income taxes and investment tax credits	113	(40)	(130)
Noncash rate-reduction bond expense	--	55	60
Other	(3)	12	3
Changes in other assets	19	5	9
Changes in other liabilities	(23)	(5)	(16)
Changes in working capital components:			
Accounts receivable	1	(43)	39
Interest receivable	1	(1)	2
Due to/from affiliates, net	18	7	(12)
Inventories	51	(16)	(19)
Other current assets	(49)	6	(19)
Income taxes	44	(31)	(32)
Accounts payable	(70)	10	9
Regulatory balancing accounts	(184)	133	(14)
Other current liabilities	59	(21)	(16)
Net cash provided by operating activities	<u>619</u>	<u>660</u>	<u>397</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(884)	(714)	(1,070)
Expenditures for short-term investments	(488)	--	--
Proceeds from sale of short-term investments	464	--	--
Purchases of nuclear decommissioning trust assets	(468)	(587)	(481)
Proceeds from sales by nuclear decommissioning trusts	468	592	484
Increase in loans to affiliates, net	(33)	--	(1)
Proceeds from sale of assets	1	2	1
Net cash used in investing activities	<u>(940)</u>	<u>(707)</u>	<u>(1,067)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution	--	--	200
Preferred dividends paid	(5)	(5)	(5)
Redemptions of preferred stock	(14)	(3)	(3)
Issuances of long-term debt	193	313	411
Payments on long-term debt	--	(66)	(227)
Increase (decrease) in short-term debt, net	--	(72)	72
Capital contribution received by Otay Mesa VIE	9	--	--
Other	(1)	--	(5)
Net cash provided by financing activities	<u>182</u>	<u>167</u>	<u>443</u>
Increase (decrease) in cash and cash equivalents	(139)	120	(227)
Cash and cash equivalents, January 1	158	9	236
Cash assumed in connection with FIN 46(R) initial consolidation	--	29	--
Cash and cash equivalents, December 31	<u>\$ 19</u>	<u>\$ 158</u>	<u>\$ 9</u>

See Notes to Consolidated Financial Statements.

**SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
STATEMENTS OF CONSOLIDATED CASH FLOWS**

(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 92	\$ 85	\$ 91
Income tax payments, net of refunds	\$ 3	\$ 206	\$ 313
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Increase in accounts payable from investments in property, plant and equipment	\$ 33	\$ 37	\$ 21
Dividends declared but not paid	\$ 1	\$ 1	\$ 1

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2008, 2007 and 2006

<i>(Dollars in millions)</i>	Comprehensive Income	Preferred Stock Not Subject to Mandatory Redemption	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2005		\$ 79	\$ 938	\$ 559	\$ (14)	\$ 1,562
Net income	\$ 242			242		242
Pension adjustment	(2)				(2)	(2)
Comprehensive income	<u>\$ 240</u>					
Adoption of FASB Statement No. 158					(3)	(3)
Preferred stock dividends declared				(5)		(5)
Capital contribution			200			200
Balance at December 31, 2006		79	1,138	796	(19)	1,994
Adoption of FIN 48				(1)		(1)
Net income	\$ 288			288		288
Financial instruments	(1)				(1)	(1)
Pension adjustment	4				4	4
Comprehensive income	<u>\$ 291</u>					
Preferred stock dividends declared				(5)		(5)
Balance at December 31, 2007		79	1,138	1,078	(16)	2,279
Net income	\$ 344			344		344
Pension adjustment	3				3	3
Comprehensive income	<u>\$ 347</u>					
Preferred stock dividends declared				(5)		(5)
Balance at December 31, 2008		\$ 79	\$ 1,138	\$ 1,417	\$ (13)	\$ 2,621

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
Operating revenues	\$ 4,768	\$ 4,282	\$ 4,181
Operating expenses			
Cost of natural gas	2,841	2,420	2,410
Operation and maintenance	1,077	1,022	949
Depreciation	280	281	267
Franchise fees and other taxes	135	125	121
Gains on sale of assets	--	(2)	(5)
Total operating expenses	4,333	3,846	3,742
Operating income	435	436	439
Other income (expense), net	1	(4)	(2)
Interest income	22	51	64
Interest expense	(65)	(76)	(76)
Income before income taxes	393	407	425
Income tax expense	141	165	186
Net income	252	242	239
Preferred dividend requirements	4	4	4
Earnings applicable to common shares	\$ 248	\$ 238	\$ 235

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 206	\$ 59
Accounts receivable – trade	572	671
Accounts receivable – other	20	22
Due from unconsolidated affiliates	5	5
Income taxes receivable	108	37
Deferred income taxes	--	33
Inventories	167	98
Other regulatory assets	18	40
Other	37	23
Total current assets	1,133	988
Other assets:		
Due from unconsolidated affiliates	457	457
Regulatory assets arising from pension and other postretirement benefit obligations	795	--
Other regulatory assets	105	100
Pension plan assets in excess of benefit obligations	--	62
Sundry	49	39
Total other assets	1,406	658
Property, plant and equipment:		
Property, plant and equipment	8,816	8,448
Less accumulated depreciation	(3,448)	(3,292)
Property, plant and equipment, net	5,368	5,156
Total assets	\$ 7,907	\$ 6,802

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	December 31, 2008	December 31, 2007
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – trade	\$ 257	\$ 300
Accounts payable – other	163	130
Due to unconsolidated affiliates	106	125
Deferred income taxes	6	--
Regulatory balancing accounts, net	221	183
Customer deposits	114	90
Accrued compensation and benefits	92	87
Current portion of long-term debt	100	--
Other	213	223
Total current liabilities	<u>1,272</u>	<u>1,138</u>
Long-term debt	<u>1,270</u>	<u>1,113</u>
Deferred credits and other liabilities:		
Customer advances for construction	131	123
Pension and other postretirement benefit obligations, net of plan assets	823	58
Deferred income taxes	157	102
Deferred investment tax credits	30	33
Regulatory liabilities arising from removal obligations	1,218	1,187
Regulatory liabilities arising from pension and other postretirement benefit obligations	--	34
Asset retirement obligations	581	562
Deferred taxes refundable in rates	214	231
Preferred stock of subsidiary	20	20
Deferred credits and other	251	285
Total deferred credits and other liabilities	<u>3,425</u>	<u>2,635</u>
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock	80	80
Common stock (600 million shares authorized; 84 million shares outstanding; no par value)	1,462	1,462
Retained earnings	426	378
Accumulated other comprehensive income (loss)	(28)	(4)
Total shareholders' equity	<u>1,940</u>	<u>1,916</u>
Total liabilities and shareholders' equity	\$ 7,907	\$ 6,802

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 252	\$ 242	\$ 239
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	280	281	267
Deferred income taxes and investment tax credits	92	10	(26)
Gains on sale of assets, net	--	(2)	(5)
Other	(2)	2	3
Quasi-reorganization resolution	--	--	12
Changes in other assets	(30)	4	(2)
Changes in other liabilities	(56)	29	26
Changes in working capital components:			
Accounts receivable	102	(31)	52
Interest receivable	--	10	(1)
Inventories	(69)	8	18
Other current assets	(23)	(2)	(7)
Accounts payable	7	(79)	83
Income taxes	(71)	42	113
Due to/from affiliates, net	(4)	4	(19)
Regulatory balancing accounts	46	(13)	185
Customer deposits	24	3	8
Other current liabilities	24	(17)	(35)
Net cash provided by operating activities	<u>572</u>	<u>491</u>	<u>911</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(454)	(457)	(413)
Decrease (increase) in loans to affiliates, net	136	(34)	(145)
Proceeds from sale of assets	--	2	11
Other	(1)	--	(1)
Net cash used in investing activities	<u>(319)</u>	<u>(489)</u>	<u>(548)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(350)	(150)	(150)
Preferred dividends paid	(4)	(4)	(4)
Issuances of long-term debt	250	--	--
Decrease in short-term debt, net	--	--	(88)
Other	(2)	--	--
Net cash used in financing activities	<u>(106)</u>	<u>(154)</u>	<u>(242)</u>
Increase (decrease) in cash and cash equivalents	147	(152)	121
Cash and cash equivalents, January 1	59	211	90
Cash and cash equivalents, December 31	<u>\$ 206</u>	<u>\$ 59</u>	<u>\$ 211</u>

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 61	\$ 72	\$ 69
Income tax payments, net of refunds	\$ 120	\$ 114	\$ 99
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Increase (decrease) in accounts payable from investments in property, plant and equipment	\$ (17)	\$ 5	\$ 4
Dividends declared but not paid	\$ 1	\$ 151	\$ 51

See Notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2008, 2007 and 2006

<i>(Dollars in millions)</i>	Comprehensive Income	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2005		\$ 80	\$ 1,453	\$ 306	\$ (5)	\$ 1,834
Net income	\$ 239			239		239
Pension adjustment	2				2	2
Comprehensive income	<u>\$ 241</u>					
Adoption of FASB Statement No. 158					(2)	(2)
Quasi-reorganization adjustment			11			11
Preferred stock dividends declared				(4)		(4)
Common stock dividends declared				(150)		(150)
Balance at December 31, 2006		80	1,464	391	(5)	1,930
Adoption of FIN 48				(1)		(1)
Net income	\$ 242			242		242
Financial instruments	1				1	1
Comprehensive income	<u>\$ 243</u>					
Quasi-reorganization adjustment			(2)			(2)
Preferred stock dividends declared				(4)		(4)
Common stock dividends declared				(250)		(250)
Balance at December 31, 2007		80	1,462	378	(4)	1,916
Net income	\$ 252			252		252
Financial instruments	(25)				(25)	(25)
Pension adjustment	1				1	1
Comprehensive income	<u>\$ 228</u>					
Preferred stock dividends declared				(4)		(4)
Common stock dividends declared				(200)		(200)
Balance at December 31, 2008		\$ 80	\$ 1,462	\$ 426	\$ (28)	\$ 1,940

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
Operating revenues	\$ 4,768	\$ 4,282	\$ 4,181
Operating expenses			
Cost of natural gas	2,841	2,420	2,410
Operation and maintenance	1,078	1,021	949
Depreciation	280	281	267
Franchise fees and other taxes	135	125	121
Gains on sale of assets	--	(2)	(5)
Total operating expenses	4,334	3,845	3,742
Operating income	434	437	439
Other income (expense), net	2	(3)	(1)
Interest income	11	27	29
Interest expense	(62)	(70)	(70)
Income before income taxes	385	391	397
Income tax expense	140	160	173
Net income	245	231	224
Preferred dividend requirements	1	1	1
Earnings applicable to common shares	\$ 244	\$ 230	\$ 223

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS*(Dollars in millions)*

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 206	\$ 59
Accounts receivable – trade	572	671
Accounts receivable – other	20	22
Due from unconsolidated affiliates	--	129
Income taxes receivable	41	--
Deferred income taxes	--	33
Inventories	167	98
Other regulatory assets	18	40
Other	37	22
Total current assets	<u>1,061</u>	<u>1,074</u>
Other assets:		
Regulatory assets arising from pension and other postretirement benefit obligations	795	--
Other regulatory assets	105	100
Pension plan assets in excess of benefit obligations	--	62
Sundry	24	16
Total other assets	<u>924</u>	<u>178</u>
Property, plant and equipment:		
Property, plant and equipment	8,814	8,446
Less accumulated depreciation and amortization	(3,448)	(3,292)
Property, plant and equipment, net	<u>5,366</u>	<u>5,154</u>
Total assets	<u>\$ 7,351</u>	<u>\$ 6,406</u>

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2008	December 31, 2007
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – trade	\$ 257	\$ 300
Accounts payable – other	163	130
Due to unconsolidated affiliates	23	171
Deferred income taxes	6	--
Income taxes payable	--	26
Regulatory balancing accounts, net	221	183
Customer deposits	114	90
Accrued compensation and benefits	92	87
Current portion of long-term debt	100	--
Other	211	223
Total current liabilities	1,187	1,210
Long-term debt	1,270	1,113
Deferred credits and other liabilities:		
Customer advances for construction	131	123
Pension and other postretirement benefit obligations, net of plan assets	823	58
Deferred income taxes	167	117
Deferred investment tax credits	30	33
Regulatory liabilities arising from removal obligations	1,218	1,187
Regulatory liabilities arising from pension and other postretirement benefit obligations	--	34
Asset retirement obligations	581	562
Deferred taxes refundable in rates	214	231
Deferred credits and other	240	268
Total deferred credits and other liabilities	3,404	2,613
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	630	586
Accumulated other comprehensive income (loss)	(28)	(4)
Total shareholders' equity	1,490	1,470
Total liabilities and shareholders' equity	\$ 7,351	\$ 6,406

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 245	\$ 231	\$ 224
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	280	281	267
Deferred income taxes and investment tax credits	87	8	(24)
Gains on sale of assets, net	--	(2)	(5)
Other	2	5	6
Changes in other assets	(33)	--	(5)
Changes in other liabilities	(51)	37	31
Changes in working capital components:			
Accounts receivable	102	(31)	52
Interest receivable	--	10	(1)
Inventories	(69)	8	18
Other current assets	(23)	(2)	(7)
Accounts payable	7	(79)	83
Income taxes	(67)	38	98
Due to/from affiliates, net	(6)	1	(22)
Regulatory balancing accounts	46	(13)	185
Customer deposits	24	3	8
Other current liabilities	24	(17)	(35)
Net cash provided by operating activities	<u>568</u>	<u>478</u>	<u>873</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(454)	(457)	(413)
Decrease (increase) in loans to affiliates, net	136	(24)	(111)
Proceeds from sale of assets	--	2	11
Net cash used in investing activities	<u>(318)</u>	<u>(479)</u>	<u>(513)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(350)	(150)	(150)
Preferred dividends paid	(1)	(1)	(1)
Issuances of long-term debt	250	--	--
Decrease in short-term debt, net	--	--	(88)
Other	(2)	--	--
Net cash used in financing activities	<u>(103)</u>	<u>(151)</u>	<u>(239)</u>
Increase (decrease) in cash and cash equivalents	147	(152)	121
Cash and cash equivalents, January 1	59	211	90
Cash and cash equivalents, December 31	<u>\$ 206</u>	<u>\$ 59</u>	<u>\$ 211</u>

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Years ended December 31,		
	2008	2007	2006
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 58	\$ 66	\$ 63
Income tax payments, net of refunds	\$ 120	\$ 114	\$ 99
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Increase (decrease) in accounts payable from investments in property, plant and equipment	\$ (17)	\$ 5	\$ 4
Dividends declared but not paid	\$ --	\$ 150	\$ 50

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2008, 2007 and 2006

<i>(Dollars in millions)</i>	Comprehensive Income	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2005		\$ 22	\$ 866	\$ 534	\$ (5)	\$ 1,417
Net income	\$ 224			224		224
Pension adjustment	<u>2</u>				2	2
Comprehensive income	<u>\$ 226</u>					
Adoption of FASB Statement No. 158					(2)	(2)
Preferred stock dividends declared				(1)		(1)
Common stock dividends declared				(150)		(150)
Balance at December 31, 2006		22	866	607	(5)	1,490
Adoption of FIN 48				(1)		(1)
Net income	\$ 231			231		231
Financial instruments	<u>1</u>				1	1
Comprehensive income	<u>\$ 232</u>					
Preferred stock dividends declared				(1)		(1)
Common stock dividends declared				(250)		(250)
Balance at December 31, 2007		22	866	586	(4)	1,470
Net income	\$ 245			245		245
Financial instruments	(25)				(25)	(25)
Pension adjustment	<u>1</u>				1	1
Comprehensive income	<u>\$ 221</u>					
Preferred stock dividends declared				(1)		(1)
Common stock dividends declared				(200)		(200)
Balance at December 31, 2008		\$ 22	\$ 866	\$ 630	\$ (28)	\$ 1,490

See Notes to Consolidated Financial Statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES AND OTHER FINANCIAL DATA

PRINCIPLES OF CONSOLIDATION

Sempra Energy

Sempra Energy's Consolidated Financial Statements include the accounts of Sempra Energy, a California-based Fortune 500 holding company, its consolidated subsidiaries, and a variable interest entity. Sempra Energy's principal subsidiaries are the following:

§ San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), which we collectively refer to as the Sempra Utilities; and
§ Sempra Global, which is the holding company for Sempra Commodities, Sempra Generation, Sempra Pipelines & Storage, Sempra LNG and other, smaller businesses.

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated subsidiaries in Notes 3 and 4.

SDG&E

SDG&E's Consolidated Financial Statements include its accounts, the accounts of its sole subsidiary, SDG&E Funding LLC, and the accounts of Otay Mesa Energy Center LLC (Otay Mesa VIE), a variable interest entity of which SDG&E is the primary beneficiary, as discussed below under "Variable Interest Entities." SDG&E's common stock is wholly owned by Enova Corporation, which is a wholly owned subsidiary of Sempra Energy. The activities of SDG&E Funding LLC were substantially complete in 2007, and the entity was dissolved in 2008.

Pacific Enterprises and SoCalGas

The Consolidated Financial Statements of Pacific Enterprises include the accounts of Pacific Enterprises (PE) and its subsidiary, SoCalGas. Sempra Energy wholly owns PE's common stock and PE owns all of SoCalGas' common stock. SoCalGas' Consolidated Financial Statements include its subsidiaries, which comprise less than one percent of its consolidated financial position and results of operations.

PE's operations consist solely of those of SoCalGas and additional items (e.g., cash, intercompany accounts and equity) attributable to being a holding company for SoCalGas.

BASIS OF PRESENTATION

This is a combined report of Sempra Energy, SDG&E, PE and SoCalGas. We provide separate information for SDG&E, PE and SoCalGas as required. When only information for SoCalGas is provided, it is the same for PE. References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, unless otherwise indicated by the context. We have eliminated intercompany accounts and transactions within each set of consolidated financial statements.

QUASI-REORGANIZATION

In 1993, PE effected a quasi-reorganization for financial reporting purposes as of December 31, 1992. A quasi-reorganization permits a company, for accounting purposes, to adjust its financial statements and proceed on much the same basis as if it had been legally reorganized. In 2006, PE favorably resolved certain liabilities established in connection with the quasi-reorganization, resulting in increases in common equity. Also in 2006, we reported cash

received in 2006 from the resolution of an insurance claim related to quasi-reorganization issues in Quasi-Reorganization Resolution on the Statements of Consolidated Cash Flows. In 2007, an adjustment to the liabilities resulted in a decrease to equity. The remaining liabilities of \$11 million will be resolved in future years. We believe the provisions established for these matters are adequate.

USE OF ESTIMATES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). This requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including the disclosure of contingent assets and liabilities at the date of the financial statements. Although we believe the estimates and assumptions are reasonable, actual amounts ultimately may differ significantly from those estimates.

REGULATORY MATTERS

Effects of Regulation

The accounting policies of our principal regulated utility subsidiaries, SDG&E and SoCalGas, conform with GAAP for regulated enterprises and reflect the policies of the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC).

The Sempra Utilities prepare their financial statements in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS 71). Under SFAS 71, a regulated utility records a regulatory asset if it is probable that, through the ratemaking process, the utility will recover that asset from customers. To the extent that recovery is no longer probable as a result of changes in regulation or the utility's competitive position, the related regulatory assets are written off. Regulatory liabilities represent amounts collected from customers in advance of the actual expenditure by the utility. If the actual expenditures are less than amounts previously collected from ratepayers, the excess would be refunded to customers, generally by reducing future rates.

Mobile Gas Service Corporation (Mobile Gas), a subsidiary of Sempra Pipelines & Storage acquired in October 2008, is a small regulated natural gas distribution utility in Southwest Alabama. It also applies SFAS 71 to its operations.

We provide information concerning regulatory assets and liabilities below in "Regulatory Balancing Accounts" and "Regulatory Assets and Liabilities."

Regulatory Balancing Accounts

The following table summarizes our regulatory balancing accounts at December 31. The net payables (payables net of receivables) will be returned to customers by reducing future rates.

SUMMARY OF REGULATORY BALANCING ACCOUNTS AT DECEMBER 31						
<i>(Dollars in millions)</i>						
	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2008	2007	2008	2007	2008	2007
Over-collected	\$ 728	\$ 721	\$ 364	\$ 455	\$ 364	\$ 266
Under-collected	(393)	(240)	(250)	(157)	(143)	(83)
Net payable	\$ 335	\$ 481	\$ 114	\$ 298	\$ 221	\$ 183

Over- and under-collected regulatory balancing accounts reflect the difference between customer billings and recorded or CPUC-authorized costs, primarily commodity costs. Amounts in the balancing accounts are recoverable or refundable in future rates, subject to CPUC approval. Balancing account treatment eliminates the impact on earnings from variances in the covered costs from authorized amounts. Absent balancing account treatment,

variations in operating and maintenance costs from amounts approved by the CPUC may increase volatility in utility earnings.

We provide additional information about regulatory matters in Notes 14 and 15.

Regulatory Assets and Liabilities

We show the details of regulatory assets and liabilities in the following table, and discuss each of them separately below.

REGULATORY ASSETS AND LIABILITIES AT DECEMBER 31		
<i>(Dollars in millions)</i>		
	2008	2007
SDG&E		
Fixed-price contracts and other derivatives	\$ 358	\$ 361
Deferred taxes recoverable in rates	369	312
Unamortized loss on reacquired debt, net	30	34
Pension and other postretirement benefit obligations	393**	162
Removal obligations*	(1,212)	(1,335)
Environmental costs	21	11
Other	16	17
Total SDG&E	(25)	(438)
SoCalGas		
Environmental costs	36	43
Unamortized loss on reacquired debt, net	30	34
Removal obligations*	(1,218)	(1,187)
Deferred taxes refundable in rates	(214)	(231)
Employee benefit costs	46	41
Pension and other postretirement benefit obligations	795**	(34)
Other	8	21
Total SoCalGas	(517)	(1,313)
Other – Mobile Gas	(3)	--
Total Sempra Energy Consolidated	\$ (545)	\$ (1,751)

* This is related to SFAS 143, Accounting for Asset Retirement Obligations, which we discuss below in "Asset Retirement Obligations."

** Recent market turmoil resulted in significant losses in the value of assets in pension and postretirement benefit plans. At the Sempra Utilities, the impact of this loss in value is recoverable in rates, which caused an increase in regulatory assets for pension and other postretirement benefit plans in 2008.

**NET REGULATORY ASSETS (LIABILITIES) AS PRESENTED ON THE
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31**

(Dollars in millions)

	2008			2007		
	Sempra Energy Consolidated	SDG&E	SoCalGas	Sempra Energy Consolidated	SDG&E	SoCalGas
Current regulatory assets	\$ 121	\$ 102	\$ 18	\$ 106	\$ 66	\$ 40
Noncurrent regulatory assets	1,986	1,085	900	931	831	100
Current regulatory liabilities*	(3)	--	(3)	(1)	--	(1)
Noncurrent regulatory liabilities	(2,649)	(1,212)	(1,432)	(2,787)	(1,335)	(1,452)
Total	\$ (545)	\$ (25)	\$ (517)	\$ (1,751)	\$ (438)	\$ (1,313)

* Included in Other Current Liabilities.

In the tables above:

§ Regulatory assets arising from fixed-price contracts and other derivatives are offset by corresponding liabilities arising from purchased power and natural gas transportation contracts. The regulatory asset is reduced as payments are made for commodities and services under these contracts.

§ Deferred taxes recoverable/refundable in rates are based on current regulatory ratemaking and income tax laws. SDG&E and SoCalGas expect to recover/refund net regulatory assets/liabilities related to deferred income taxes over the lives of the assets that give rise to the accumulated deferred income tax liabilities/assets.

§ Regulatory assets related to unamortized losses on reacquired debt are recovered over the remaining original amortization periods of the loss on reacquired debt. These periods range from 3 months to 19 years for SDG&E and from 4 to 17 years for SoCalGas.

§ Regulatory assets related to environmental costs represent the portion of our environmental liability recognized at the end of the period in excess of the amount that has been recovered through rates charged to customers. We expect this amount to be recovered in future rates as expenditures are made.

§ Regulatory assets related to pension and other postretirement benefit obligations are offset by corresponding liabilities and are being recovered in rates as the costs are incurred.

All of these assets either earn a return, generally at short-term rates, or the cash has not yet been expended and the assets are offset by liabilities that do not incur a carrying cost.

FAIR VALUE MEASUREMENTS

We apply recurring fair value measurements to certain assets and liabilities, primarily nuclear decommissioning trusts, marketable securities and other miscellaneous derivatives. Prior to the formation of RBS Sempra Commodities LLP (RBS Sempra Commodities) on April 1, 2008, as we discuss in Notes 3 and 4, we also applied fair value measurements to trading derivatives and certain trading inventories.

The valuation techniques we use to determine fair value are in accordance with SFAS 157, *Fair Value Measurements* (SFAS 157).

SFAS 157 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

SFAS 157 requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risk inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. SFAS 157 also clarifies that an issuer's credit standing should be considered when measuring liabilities at fair value.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Our Level 1 financial instruments primarily consist of exchange-traded derivatives, listed equities and U.S. government treasury securities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including:

- § quoted forward prices for commodities
- § time value
- § volatility factors
- § current market and contractual prices for the underlying instruments
- § other relevant economic measures

Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Our financial instruments in this category include non-exchange-traded derivatives such as over-the-counter (OTC) forwards and options.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value from the perspective of a market participant.

We elected to early-adopt SFAS 157 in the first quarter of 2007. As required, we applied the provisions of SFAS 157 prospectively, except for the initial impact of certain items specified by the pronouncement.

As required under SFAS 157, we recorded the adjustments for these items as a transition adjustment to beginning retained earnings in 2007. The transition adjustment to Sempra Energy's beginning retained earnings in 2007 was a gain of \$12 million, net of income tax. There was no transition adjustment as a result of the adoption of SFAS 157 at SDG&E or SoCalGas.

CASH AND CASH EQUIVALENTS

Cash equivalents are highly liquid investments with maturities of three months or less at the date of purchase.

RESTRICTED CASH

Restricted cash at Sempra Energy was \$27 million in 2008 and \$1 million in 2007 at December 31. In 2008, restricted cash represents funds held in trust for construction financing of certain natural gas storage facilities of Sempra Pipelines & Storage. In 2007, restricted cash served as cash collateral for certain debt agreements.

COLLECTION ALLOWANCES

We record allowances for the collection of receivables and, prior to the sale of our commodities-marketing businesses, realization of trading assets (discussed below under "Trading Instruments"). The allowances for collection of receivables include allowances for doubtful customer accounts and for other receivables. The changes in allowances for collection of receivables and realization of trading assets are shown in the table below:

COLLECTION ALLOWANCES*(Dollars in millions)*

	Years ended December 31,		
	2008	2007	2006
Sempra Energy Consolidated			
Allowances for collection of receivables at January 1	\$ 16	\$ 15	\$ 15
Provisions for uncollectible accounts	36	20	19
Write-offs of uncollectible accounts	(25)	(19)	(19)
Acquisition of EnergySouth (see Note 3)	2	--	--
Allowances for collection of receivables at December 31	<u>\$ 29</u>	<u>\$ 16</u>	<u>\$ 15</u>
Allowance for realization of trading assets at January 1	\$ 48	\$ 53	\$ 64
Provisions for (recovery of) uncollectible accounts	42	(2)	15
Write-offs of uncollectible accounts	--	(3)	(26)
Sale of commodities-marketing businesses (see Note 3)	(90)	--	--
Allowance for realization of trading assets at December 31	<u>\$ --</u>	<u>\$ 48</u>	<u>\$ 53</u>
SDG&E			
Allowances for collection of receivables at January 1	\$ 5	\$ 5	\$ 4
Provisions for uncollectible accounts	12	8	9
Write-offs of uncollectible accounts	(11)	(8)	(8)
Allowances for collection of receivables at December 31	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 5</u>
SoCalGas			
Allowances for collection of receivables at January 1	\$ 9	\$ 8	\$ 9
Provisions for uncollectible accounts	23	12	10
Write-offs of uncollectible accounts	(14)	(11)	(11)
Allowances for collection of receivables at December 31	<u>\$ 18</u>	<u>\$ 9</u>	<u>\$ 8</u>

TRADING INSTRUMENTS

Trading instruments on the 2007 Sempra Energy Consolidated Balance Sheet related to our commodities-marketing businesses, which we sold into RBS Sempra Commodities in April 2008. We discuss this transaction in Note 3.

Trading assets and trading liabilities (described further in Note 11) include

§ option premiums paid and received

§ unrealized gains and losses from exchange-traded futures and options

§ OTC swaps, forwards and options

§ physical commodities

Trading instruments are recorded on a trade-date basis and the majority of such derivative instruments are adjusted daily to current market value. Unrealized gains and losses on OTC transactions reflect amounts that would be received from or paid to a third party upon net settlement of the contracts. Unrealized gains and losses on OTC transactions are reported separately as assets and liabilities unless a legal right of setoff exists under an enforceable netting arrangement.

We discuss the valuation of trading derivatives and commodity trading inventories in Note 11. Due to the nature, size and timing of transactions, estimated values may differ significantly from realized values. Changes in fair values are reflected in net income. Although trading instruments may have scheduled maturities later than one year, the actual settlement of these transactions can occur sooner. Because of this, we classify trading assets and liabilities as current on the Consolidated Balance Sheets.

Energy transportation and storage contracts are recorded on an accrual basis, and energy commodity inventory is recorded at the lower of cost or market. Fair value hedge accounting may be applied to a portion of these inventories. Metals inventories are recorded at fair value.

Trading Securities

In the first quarter of 2008, Sempra Commodities recorded \$2 million of pretax losses related to trading securities, including a pretax gain of \$3 million resulting from sales and an unrealized pretax loss of \$5 million related to securities held at March 31, 2008. Sempra Commodities had securities of \$16 million classified as trading securities at December 31, 2007.

In 2007, Sempra Commodities recorded \$14 million of pretax gains related to trading securities, including a pretax gain of \$6 million resulting from sales, an unrealized pretax gain of \$8 million from transfers to trading securities from available-for-sale securities due to changes in their status, and an unrealized pretax loss of a negligible amount related to securities held at December 31, 2007.

INVENTORIES

The Sempra Utilities value natural gas inventory by the last-in first-out (LIFO) method. As inventories are sold, differences between the LIFO valuation and the estimated replacement cost are reflected in customer rates. Materials and supplies at the Sempra Utilities are generally valued at the lower of average cost or market.

At December 31, 2008, Sempra Pipelines & Storage has \$39 million of natural gas inventory recorded at lower of average cost or market.

INVENTORY BALANCES AT DECEMBER 31						
<i>(Dollars in millions)</i>						
	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2008	2007	2008	2007	2008	2007
Natural gas	\$ 201	\$ 130	\$ --	\$ 49	\$ 143	\$ 80
Materials and supplies	119	94	62	64	24	18
Total	\$ 320	\$ 224	\$ 62	\$ 113	\$ 167	\$ 98

INCOME TAXES

Income tax expense includes current and deferred income taxes from operations during the year. In accordance with SFAS 109, *Accounting for Income Taxes* (SFAS 109), we record deferred income taxes for temporary differences between the book and the tax bases of assets and liabilities. Investment tax credits from prior years are amortized to income by the Sempra Utilities over the estimated service lives of the properties as required by the CPUC. At Sempra Global and Parent, investment tax credits and other credits, mainly low-income housing and synthetic fuels tax credits in 2007 and 2006, are recognized in income as earned.

We follow certain provisions of SFAS 109 that require regulated enterprises to recognize

§ regulatory assets to offset deferred tax liabilities if it is probable that the amounts will be recovered from customers; and

§ regulatory liabilities to offset deferred tax assets if it is probable that the amounts will be returned to customers.

We also follow

§ Accounting Principles Board (APB) Opinion 23, *Accounting for Income Taxes -- Special Areas*, in recording deferred taxes for investments in foreign subsidiaries and the undistributed earnings of foreign subsidiaries

§ Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48)

We provide additional information about income taxes in Note 8.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment primarily represents the buildings, equipment and other facilities used by the Sempra Utilities to provide natural gas and electric utility services, and by Sempra Generation, Sempra LNG and Sempra Pipelines & Storage. It also reflects projects included in construction work in progress at these business units.

Our plant costs include

§ labor

§ materials and contract services

§ expenditures for replacement parts incurred during a major maintenance outage of a generating plant

Maintenance costs are expensed as incurred. The cost of most retired depreciable utility plant minus salvage value is charged to accumulated depreciation.

The cost of our utility plant includes an allowance for funds used during construction (AFUDC). AFUDC is discussed below. The cost of non-utility plant includes capitalized interest.

PROPERTY, PLANT AND EQUIPMENT BY MAJOR FUNCTIONAL CATEGORY						
<i>(Dollars in billions)</i>						
	Property, Plant and Equipment at December 31,		Depreciation rates for years ended December 31,			
	2008	2007	2008	2007	2006	
SDG&E:						
Natural gas operations	\$ 1.1	\$ 1.1	2.80%	3.43%	3.42%	
Electric distribution	4.2	4.0	3.95	4.15	4.13	
Electric transmission	1.5	1.4	2.67	2.84	3.07	
Electric generation	0.9	0.8	3.77	3.67	4.44	
Other electric	0.5	0.5	8.13	8.50	8.70	
Construction work in progress	0.9	0.5	NA	NA	NA	
Total SDG&E	9.1	8.3				
SoCalGas:						
Natural gas operations	8.5	8.2	3.49	3.63	3.58	
Other non-utility	0.1	--	1.55	4.28	3.47	
Construction work in progress	0.2	0.2	NA	NA	NA	
Total SoCalGas	8.8	8.4				
Estimated Useful Lives						
Sempra Global and Parent:						
Land and land rights	0.2	0.1	25 to 50 years*			
Machinery and equipment						
Generating plant	1.4	1.4	4 to 35 years			
LNG** receipt terminal	1.0	--	5 to 45 years			
Pipelines	0.8	0.3	4 to 50 years			
Other	0.1	0.3	3 to 10 years			
Construction work in progress						
LNG facilities	0.9	1.5	NA			
Other	0.7	0.4	NA			
Other	0.2	0.2	4 to 50 years			
	5.3	4.2				
Total Sempra Energy Consolidated	\$ 23.2	\$ 20.9				

* Estimated useful lives are for land rights

** Liquefied natural gas

Depreciation expense is based on the straight-line method over the useful lives of the assets or, for the Sempra Utilities, a shorter period prescribed by the CPUC. Depreciation expense is computed using the straight-line method over the asset's estimated original composite useful life or the remaining term of the site leases, whichever is shorter.

The accumulated depreciation and decommissioning amounts on our Consolidated Balance Sheets are as follows:

ACCUMULATED DEPRECIATION AND DECOMMISSIONING AMOUNTS			
<i>(Dollars in billions)</i>			
	At December 31,		
	2008	2007	
SDG&E:			
Accumulated depreciation and decommissioning of utility plant in service:			
Electric	\$ 1.9	\$	1.8
Natural gas	0.5		0.5
Total SDG&E	2.4		2.3
SoCalGas:			
Accumulated depreciation of natural gas utility plant in service	3.4		3.3
Accumulated depreciation – other non-utility	0.1		--
Total SoCalGas	3.5		3.3
Sempra Global and Parent:			
Accumulated depreciation	0.4		0.4
Total Sempra Energy Consolidated	\$ 6.3	\$	6.0

The Sempra Utilities finance their construction projects with borrowed funds and equity funds. The CPUC allows the recovery of the cost of these funds as part of the cost of construction projects by recording AFUDC, which is calculated using rates authorized by the CPUC. The Sempra Utilities recover the AFUDC from their customers, plus earn a return on the allowance after the utility property is placed in service.

Sempra Global businesses capitalize interest costs incurred to finance capital projects under SFAS 34, *Capitalization of Interest Cost* (SFAS 34). The Sempra Utilities also capitalize certain interest costs under SFAS 34.

CAPITALIZED FINANCING COSTS			
<i>(Dollars in millions)</i>			
	Years ended December 31,		
	2008	2007	2006
SDG&E:			
AFUDC related to debt	\$ 10	\$ 7	\$ 5
AFUDC related to equity	27	17	10
Other capitalized financing costs	13	3	1
Total SDG&E	50	27	16
SoCalGas:			
AFUDC related to debt	3	2	2
AFUDC related to equity	8	5	6
Other capitalized financing costs	--	1	1
Total SoCalGas	11	8	9
Sempra Global:			
Capitalized financing costs	87	96	56
Total Sempra Energy Consolidated	\$ 148	\$ 131	\$ 81

ASSETS HELD FOR SALE

We classify assets as held for sale when management approves and commits to a formal plan to actively market an asset for sale and the sale is expected to close within the next twelve months. Upon classifying an asset as held for sale, we record the asset at the lower of its carrying value or its estimated fair value reduced for selling costs. We cease to record depreciation expense on an asset when it is classified as held for sale.

During 2008, management approved and committed to a formal plan to dispose of certain Sempra Generation assets as follows:

<i>(Dollars in millions)</i>	December 31, 2008	
Gas turbine	\$	34
Steam turbine		6
Emission reduction credits		1
	\$	41

We classified these assets as held for sale as of December 31, 2008. They are included in Other Current Assets on the Consolidated Balance Sheets. For the years ended December 31, 2008 and 2007, there was no impairment of the assets held for sale nor do the assets held for sale generate operating income. We continue to evaluate the assets in our total portfolio for whether events or circumstances have occurred that may affect recoverability or estimated useful life, and continue to pursue disposal of our assets held for sale.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill is the excess of the purchase price over the fair value of the net assets of acquired companies. Goodwill is not amortized but is tested annually on October 1 for impairment in accordance with SFAS 142, *Goodwill and Other Intangible Assets* (SFAS 142).

As a result of the formation of RBS Sempra Commodities (as we discuss in Notes 3 and 4), goodwill associated with the commodities-marketing businesses that were a part of our Sempra Commodities segment was reclassified to Investment in RBS Sempra Commodities LLP on the Consolidated Balance Sheets.

In connection with the acquisition of EnergySouth in October 2008, as we discuss in Note 3, Sempra Pipelines & Storage recorded goodwill of \$67 million.

Goodwill included in Goodwill and Other Intangible Assets on the Sempra Energy Consolidated Balance Sheets is recorded as follows:

GOODWILL		
<i>(Dollars in millions)</i>		
	December 31, 2008	December 31, 2007
Sempra Commodities	\$ --	\$ 164
Sempra Pipelines & Storage	67	--
Parent and Other	6	6
	\$ 73	\$ 170

Goodwill related to our other unconsolidated subsidiaries, primarily those located in South America, is included in Other Investments on the Sempra Energy Consolidated Balance Sheets. These amounts, before foreign-currency translation adjustments, were \$254 million at both December 31, 2008 and 2007. Including foreign-currency translation adjustments, these amounts were

§ \$213 million at December 31, 2008

§ \$262 million at December 31, 2007

We provide additional information concerning the impairment of investments in unconsolidated subsidiaries in Note 4.

Other Intangible Assets

Sempra Pipelines & Storage recorded \$460 million of intangible assets in connection with the acquisition of EnergySouth. These intangible assets represent storage and development rights related to the Bay Gas and Mississippi Hub natural gas storage facilities and were recorded at estimated fair value as of the date of the acquisition using discounted cash flows analysis. Our important assumptions in determining fair value include estimated future cash flows, the estimated useful life of the intangible assets and our use of appropriate discount rates. We are amortizing these intangible assets over their estimated useful lives as shown in the table below.

Intangible assets included in Goodwill and Other Intangible Assets on the Sempra Energy Consolidated Balance Sheets are recorded as follows:

OTHER INTANGIBLE ASSETS			
<i>(Dollars in millions)</i>			
	Amortization period (years)	December 31, 2008	December 31, 2007
Storage rights	46	\$ 138	\$ --
Development rights	50	322	--
Other	15 yrs to indefinite	9	9
Total		469	9
Less accumulated amortization		(3)	--
Total		\$ 466	\$ 9

Amortization expense related to the above intangible assets was \$3 million in 2008 and a negligible amount in 2007. We estimate the aggregate amortization expense for the next five years to be \$9 million per year.

LONG-LIVED ASSETS

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-lived Assets* (SFAS 144), we periodically evaluate whether events or circumstances have occurred that may affect the recoverability or the estimated useful lives of long-lived assets, the definition of which includes intangible assets subject to amortization in accordance with SFAS 142, but does not include unconsolidated subsidiaries. Impairment of long-lived assets occurs when the estimated future undiscounted cash flows are less than the carrying amount of the assets. If that comparison indicates that the assets' carrying value may be permanently impaired, the potential impairment is measured based on the difference between the carrying amount and the fair value of the assets. This calculation is performed at the lowest level for which separately identifiable cash flows exist.

We provide additional information about impairment of long-lived assets in Note 5.

VARIABLE INTEREST ENTITIES

FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities - an interpretation of ARB No. 51* (FIN 46(R)), requires an enterprise to consolidate a variable interest entity (VIE), as defined in FIN 46(R), if the company is the primary beneficiary of a VIE's activities. Our determination of whether we are the primary beneficiary is based upon qualitative and quantitative analyses, which assess

§ the purpose and design of the VIE;

§ the nature of the VIE's risks and the risks we absorb; and

§ whether the variable interest holders will absorb a majority of the VIE's expected losses or receive a majority of its expected residual returns (or both).

SDG&E has a 10-year agreement to purchase power to be generated at the Otay Mesa Energy Center (OMEC), a 573-megawatt (MW) generating facility currently under construction and expected to be in commercial operation in the fourth quarter of 2009. SDG&E will supply all of the natural gas to fuel the power plant and purchase its electric generation output (i.e. tolling). The agreement provides SDG&E with the option to purchase the power plant at the end of the contract term in 2019, or upon earlier termination of the purchase power agreement, at a predetermined price subject to adjustments based on performance of the facility. If SDG&E does not exercise its option, under certain circumstances, it may be required to purchase the power plant at a predetermined price.

As defined in FIN 46(R), the facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights and does not operate OMEC.

Based upon our analysis, SDG&E absorbs the majority of risk from the Otay Mesa VIE under the combination of the tolling agreement and the put and call options. Accordingly, we and SDG&E have consolidated Otay Mesa VIE since the second quarter of 2007. The CPUC has approved an additional financial return to SDG&E to compensate it for the effect on its financial ratios from the requirement to consolidate Otay Mesa VIE in accordance with FIN 46(R). Otay Mesa VIE's equity of \$128 million and \$135 million is included in Minority Interests at December 31, 2008 and 2007, respectively, on the Sempra Energy and SDG&E Consolidated Balance Sheets.

OMEC LLC has a project finance credit facility with third party lenders, secured by its assets, that provides for up to \$377 million for the construction of OMEC. SDG&E is not a party to the credit agreement and does not have any additional implicit or explicit financial responsibility to Otay Mesa VIE. The loan matures in April 2019. Borrowings under the facility bear interest at rates varying with market rates. OMEC LLC had \$256 million of outstanding borrowings under this facility at December 31, 2008. In addition, OMEC LLC has entered into interest-rate swap agreements to moderate its exposure to interest-rate changes on this facility. We provide additional information concerning the interest-rate swaps in Note 11.

The Consolidated Financial Statements of Sempra Energy and SDG&E include the following amounts associated with Otay Mesa VIE:

AMOUNTS ASSOCIATED WITH OTAY MESA VIE		
<i>(Dollars in millions)</i>		
	December 31,	
	2008	2007
Cash and cash equivalents	\$ 11	\$ 1
Other current assets	23	3
Total current assets	34	4
Property, plant and equipment	464	232
Sundry	8	9
Total assets	<u>\$ 506</u>	<u>\$ 245</u>
Accounts payable	\$ 35	\$ 15
Current portion of long-term debt	2	--
Other current liabilities	13	2
Long-term debt	254	70
Fixed-price contracts and other derivatives	73	16
Minority interest	128	135
Other	1	7
Total liabilities and shareholders' equity	<u>\$ 506</u>	<u>\$ 245</u>
	Years ended December 31,	
	2008	2007
Loss on interest-rate swaps	\$ (54)	\$ (17)
Minority interest	54	17
Other income, net	--	--
Net income	<u>\$ --</u>	<u>\$ --</u>

Contracts, under which SDG&E acquires power from generation facilities otherwise unrelated to SDG&E, could result in a requirement for SDG&E to consolidate the entity that owns the facility. In accordance with FIN 46(R), SDG&E continues the process of determining if it has any such situations and, if so, gathering the information that would be needed to perform the consolidation. However, such information has not been made available to us and an evaluation of variable interests has not been completed for these entities that are grandfathered pursuant to FIN 46(R). The effects of any required consolidation are not expected to significantly affect the financial position, results of operations or liquidity of SDG&E.

ASSET RETIREMENT OBLIGATIONS

We account for tangible long-lived assets in accordance with SFAS 143, *Accounting for Asset Retirement Obligations* (SFAS 143), and FIN 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143* (FIN 47). SFAS 143 and FIN 47 require us to record an asset retirement obligation for the present value of liabilities of future costs expected to be incurred when assets are retired from service, if the retirement process is legally required and if a reasonable estimate of fair value can be made. We record the estimated retirement cost over the life of the related asset by depreciating the present value of the obligation (measured at the time of the asset's acquisition) and accreting the discount until the liability is settled. Rate-regulated entities may record regulatory assets or liabilities as a result of the timing difference between the recognition of costs as recorded in accordance with SFAS 143 and FIN 47, and costs recovered through the rate-making process. We have recorded a regulatory liability to show that the Sempra Utilities have collected funds from customers more quickly and for larger amounts than SFAS 143 and FIN 47 would accrete the retirement liability and depreciate the asset.

We have recorded asset retirement obligations related to various assets including:

SDG&E and SoCalGas

- § fuel and storage tanks
- § natural gas distribution system
- § hazardous waste storage facilities
- § asbestos-containing construction materials

SDG&E

- § decommissioning of nuclear power facilities
- § electric distribution and transmission systems
- § site restoration of a former power plant

SoCalGas

- § natural gas transmission pipeline
- § underground natural gas storage facilities and wells

Sempra Global

- § certain power generation plants (natural gas and solar)
- § natural gas distribution and transportation systems
- § LNG regasification plant

The changes in asset retirement obligations are as follows:

CHANGES IN ASSET RETIREMENT OBLIGATIONS						
<i>(Dollars in millions)</i>						
	Sempra Energy Consolidated		SDG&E		SoCalGas	
	December 31,		December 31,		December 31,	
	2008	2007	2008	2007	2008	2007
Balance as of January 1*	\$ 1,158	\$ 1,163	\$ 568	\$ 483	\$ 577	\$ 669
Accretion expense	74	78	37	35	36	41
Liabilities incurred	--	2	--	1	--	1
Payments	(11)	(21)	(10)	(20)	(1)	(1)
Revision to estimated cash flows	(57)	(64)	(41)	69	(17)	(133)
Additions	7	--	--	--	--	--
Acquisition of EnergySouth (see Note 3)	6	--	--	--	--	--
Balance as of December 31*	\$ 1,177	\$ 1,158	\$ 554	\$ 568	\$ 595	\$ 577

* The current portions of the obligations are included in Other Current Liabilities on the Consolidated Balance Sheets.

LEGAL FEES

Legal fees that are associated with a past event for which a liability has been recorded are accrued when it is probable that fees also will be incurred.

COMPREHENSIVE INCOME

Comprehensive income includes all changes in the equity of a business enterprise (except those resulting from investments by owners and distributions to owners), including:

§ foreign-currency translation adjustments

§ amortization of net actuarial loss and prior service cost related to pension and other postretirement benefits plans

§ changes in minimum pension liability

§ certain hedging activities

The Statements of Consolidated Comprehensive Income and Changes in Shareholders' Equity show the changes in the components of other comprehensive income. The components of Accumulated Other Comprehensive Income (Loss), shown net of income taxes, and the related income tax expense (benefit) at December 31, 2008 and 2007 are as follows:

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) AND ASSOCIATED INCOME TAX EXPENSE (BENEFIT)				
<i>(Dollars in millions)</i>				
	Accumulated Other Comprehensive Income (Loss)		Income Tax Expense (Benefit)	
	2008	2007	2008	2007
Sempra Energy Consolidated				
Foreign currency translation loss	\$ (378)	\$ (238)	\$ --	\$ --
Financial instruments	(40)	(24)	(25)	(11)
Unrealized gains on available-for-sale securities	2	28	1	16
Unamortized net actuarial loss	(99)	(72)	(68)	(50)
Unamortized prior service credit	2	5	2	4
Balance as of December 31	\$ (513)	\$ (301)	\$ (90)	\$ (41)
SDG&E				
Unamortized net actuarial loss	\$ (13)	\$ (16)	\$ (8)	\$ (11)
Unamortized prior service credit	1	1	1	1
Financial instruments	(1)	(1)	(1)	(1)
Balance as of December 31	\$ (13)	\$ (16)	\$ (8)	\$ (11)
SoCalGas				
Unamortized net actuarial loss	\$ (5)	\$ (6)	\$ (4)	\$ (4)
Unamortized prior service credit	1	1	1	1
Financial instruments	(24)	1	(16)	1
Balance as of December 31	\$ (28)	\$ (4)	\$ (19)	\$ (2)

REVENUES

Sempra Utilities

The Sempra Utilities generate revenues primarily from deliveries to their customers of electricity by SDG&E and natural gas by both SoCalGas and SDG&E, and from related services. They record these revenues under the accrual method and recognize them upon delivery and performance. They also record revenue from incentive awards, which is recognized upon approval of the award by the CPUC. We provide additional discussion on utility incentive awards in Note 14.

Under an operating agreement with the California Department of Water Resources (DWR), SDG&E acts as a limited agent on behalf of the DWR in the administration of energy contracts, including natural gas procurement functions under the DWR contracts allocated to SDG&E's customers. The legal and financial responsibilities associated with these activities continue to reside with the DWR. Therefore, the commodity costs associated with long-term contracts allocated to SDG&E from the DWR (and the revenues to recover those costs) are not included in our Statements of Consolidated Income. We provide discussion on electric industry restructuring related to the DWR in Note 14.

On a monthly basis, SoCalGas accrues natural gas storage contract revenues, which consist of reservation, storage and injection charges based on negotiated agreements with terms of up to 15 years.

The table below shows the total revenues from the Sempra Utilities in Sempra Energy's Statements of Consolidated Income, which are net of sales taxes, for each of the last three years. The revenues include amounts for services rendered but unbilled (approximately one-half month's deliveries) at the end of each year.

TOTAL SEMPRU UTILITIES REVENUES AT SEMPRU ENERGY CONSOLIDATED*			
<i>(Dollars in billions)</i>			
	Years ended December 31,		
	2008	2007	2006
Natural gas revenues	\$ 5.4	\$ 4.9	\$ 4.8
Electric revenues	2.6	2.2	2.1
Total	\$ 8.0	\$ 7.1	\$ 6.9

* Excludes intercompany revenues.

As discussed in Note 15, beginning April 1, 2008, the SDG&E and SoCalGas core natural gas supply portfolios were combined and are managed by SoCalGas. Effective as of that date, SoCalGas procures natural gas for SDG&E's core customers. Core customers are primarily residential and small commercial and industrial customers. This core gas procurement function is considered a shared service, therefore amounts related to SDG&E are not included in SoCalGas' income statement.

We provide additional information concerning utility revenue recognition in "Regulatory Matters" above.

Sempra Global

Sempra Commodities

As we discuss in Notes 3 and 4, on April 1, 2008, our commodities-marketing businesses, previously wholly owned subsidiaries of Sempra Energy, were sold into RBS Sempra Commodities, a partnership jointly owned by Sempra Energy and The Royal Bank of Scotland. Therefore, beginning April 1, 2008, we account for our earnings in the partnership under the equity method. RBS Sempra Commodities generates most of its revenues from trading and marketing activities in natural gas, electricity, petroleum, petroleum products, base metals and other commodities. RBS Sempra Commodities quotes bid and ask prices to end users and other market makers. It also earns trading profits as a dealer by structuring and executing transactions. Principal transaction revenues are recognized on a trade-date basis and include realized gains and losses and the net change in unrealized gains and losses.

RBS Sempra Commodities uses derivative instruments (which we discuss further in Note 11) to reduce its exposure to unfavorable changes in market prices. Non-derivative contracts are accounted for on an accrual basis and the related profit or loss is recognized as the contracts are settled.

Sempra Generation

Sempra Generation generates revenues primarily from selling electricity to governmental and wholesale power marketing entities. These revenues are recognized as the electricity is delivered. In each of 2008, 2007 and 2006, Sempra Generation's electricity sales to the DWR accounted for a significant portion of its revenues. Sempra Generation's revenues also include net realized gains and losses and the net change in the fair value of unrealized gains and losses on derivative contracts for power and natural gas.

Sempra Pipelines & Storage

Sempra Pipelines & Storage has consolidated foreign subsidiaries in Mexico that recognize revenues on the sale, transportation and distribution of natural gas as deliveries are made. Sempra Pipelines & Storage's natural gas storage and transportation operations recognize revenues when they provide services in accordance with contractual agreements for the storage and transportation services.

Sempra LNG

Sempra LNG recognizes revenues on the sale of natural gas as deliveries are made and under capacity agreements as regasification services are performed. Sempra LNG's revenues also include net realized gains and losses and the net change in the fair value of unrealized gains and losses on derivative contracts for natural gas.

OTHER COST OF SALES

Other Cost of Sales primarily includes the transportation and storage costs incurred at Sempra Commodities prior to April 1, 2008 and transportation costs incurred at Sempra LNG.

OPERATION AND MAINTENANCE EXPENSES

Operation and Maintenance includes operating and maintenance costs, and general and administrative costs, which consist primarily of personnel costs, purchased materials and services, and rent.

FOREIGN CURRENCY TRANSLATION

Our foreign operations generally use their local currency as their functional currency. The assets and liabilities of our foreign operations are translated into U.S. dollars at current exchange rates at the end of the reporting period, and revenues and expenses are translated at average exchange rates for the year. Resulting translation adjustments do not enter into the calculation of net income or retained earnings (unless the operation is being discontinued), but are reflected in Comprehensive Income and in Accumulated Other Comprehensive Income (Loss), a component of shareholders' equity.

To reflect the fluctuations in the values of functional currencies of Sempra Pipelines & Storage's South American investments accounted for under the equity method, the following adjustments were made to the carrying value of these investments (dollars in millions):

Investment	Currency	Upward (downward) adjustment to investments		
		2008	2007	2006
Chile	Chilean Peso	\$ (101)	\$ 29	\$ (15)
Peru	Peruvian Nuevo Sol	(7)	8	7
Argentina	Argentine Peso	(8)	(2)	(2)

These noncash adjustments did not affect net income, but they did affect Comprehensive Income and Accumulated Other Comprehensive Income (Loss). Smaller adjustments have been made to other operations where the U.S. dollar is not the functional currency. We provide additional information concerning these investments in Note 4.

Currency transaction gains and losses in a currency other than the entity's functional currency are included in the calculation of consolidated net income at Sempra Energy as follows:

<i>(Dollars in millions)</i>	Years ended December 31,		
	2008	2007	2006
Currency transaction gains (loss)	\$ (2)	\$ --	\$ (1)

TRANSACTIONS WITH AFFILIATES

Loans to Unconsolidated Affiliates

In December 2001, Sempra Pipelines & Storage issued two U.S. dollar-denominated loans to affiliates: \$35 million to Camuzzi Gas Pampeana S.A. and \$22 million to Camuzzi Gas del Sur S.A. These companies are affiliates of Sempra Pipelines & Storage's Argentine investments discussed in Note 4. In June 2006, Sempra Pipelines & Storage collected the outstanding balance from Camuzzi Gas Pampeana S.A. The loan to Camuzzi Gas del Sur S.A. has a \$25 million balance outstanding at a variable interest rate (11.05 percent at December 31, 2008). The loan is due in June 2009 and is fully reserved at December 31, 2008.

Loans from Unconsolidated Affiliates

At December 31, 2008 and 2007, Sempra Pipelines & Storage had notes payable due to Chilquinta Energía Finance Co. LLC, an unconsolidated affiliate. These notes are secured by Sempra Pipelines & Storage's investments in Chilquinta Energía S.A. and Luz del Sur S.A.A. (Luz del Sur), which we discuss in Note 4. The amounts due are as follows:

SEMPRA ENERGY - LOANS FROM UNCONSOLIDATED AFFILIATES			
<i>(Dollars in millions)</i>			
	December 31,		
	2008	2007	
6.57% Note due April 1, 2008	\$ --	\$ 60	
6.73% Note due April 1, 2011	100	100	
Total	\$ 100	\$ 160	

Other Affiliate Transactions

Sempra Energy, SDG&E and SoCalGas provide certain services to each other, which are charged an allocable share of the cost of such services. Amounts due to/from affiliates are as follows:

AMOUNTS DUE TO AND FROM AFFILIATES AT SDG&E, PE AND SOCALGAS		
<i>(Dollars in millions)</i>		
	December 31,	
	2008	2007
SDG&E		
Current:		
Due from Sempra Energy	\$ 20	\$ --
Due from SoCalGas	8	21
Due from various affiliates	1	1
	<u>\$ 29</u>	<u>\$ 22</u>
Due to various affiliates	\$ 1	\$ 1
Due to Sempra Energy	--	9
	<u>\$ 1</u>	<u>\$ 10</u>
Income taxes due to (from) Sempra Energy*	<u>\$ 7</u>	<u>\$ (38)</u>
Noncurrent:		
Promissory note due from Sempra Energy, variable rate based on short-term commercial paper rate (0.12% at December 31, 2008)	<u>\$ 4</u>	<u>\$ 5</u>
Pacific Enterprises		
Current:		
Due from various affiliates	<u>\$ 5</u>	<u>\$ 5</u>
Due to affiliate	\$ 83	\$ 82
Due to (from) Sempra Energy	15	(128)
Due to SDG&E	8	21
Dividends payable to Sempra Energy	--	150
	<u>\$ 106</u>	<u>\$ 125</u>
Income taxes due to (from) Sempra Energy*	<u>\$ (66)</u>	<u>\$ 4</u>
Noncurrent:		
Promissory note due from Sempra Energy, variable rate based on short-term commercial paper rate (0.12% at December 31, 2008)	<u>\$ 457</u>	<u>\$ 457</u>
SoCalGas		
Current:		
Due from Sempra Energy	<u>\$ --</u>	<u>\$ 129</u>
Due to Sempra Energy	\$ 15	\$ --
Due to SDG&E	8	21
Dividends payable to PE	--	150
	<u>\$ 23</u>	<u>\$ 171</u>
Income taxes due to Sempra Energy*	<u>\$ 1</u>	<u>\$ 67</u>

* SDG&E, PE and SoCalGas are included in the consolidated income tax return of Sempra Energy and are allocated income tax expense from Sempra Energy in an amount equal to that which would result from the companies' having always filed a separate return.

Revenues from unconsolidated affiliates at the Sempra Utilities are as follows:

REVENUES FROM UNCONSOLIDATED AFFILIATES AT THE SEMPRA UTILITIES			
<i>(Dollars in millions)</i>			
	2008	2007	2006
SDG&E	\$ 11	\$ 13	\$ 15
SoCalGas	36	68	52

Transactions with RBS Sempra Commodities

Several of our business units engage in transactions with RBS Sempra Commodities. Amounts in our Consolidated Financial Statements related to these transactions are as follows:

AMOUNTS RECORDED FOR TRANSACTIONS WITH RBS SEMPRA COMMODITIES	
<i>(Dollars in millions)</i>	
	2008*
Revenues:	
SoCalGas	\$ 12
Sempra Commodities	8
Sempra Generation	23
Sempra LNG**	33
Total revenues	<u>\$ 76</u>
Cost of natural gas:	
SoCalGas	\$ 22
Sempra Pipelines & Storage	34
Total cost of natural gas	<u>\$ 56</u>
December 31, 2008	
Fixed price contracts and other derivatives – Current Asset (Liability):	
Sempra Generation	\$ 35
Sempra LNG	(44)
Total	<u>\$ (9)</u>
Due to unconsolidated affiliates:	
Sempra Generation	\$ 6
Sempra Commodities	29
Sempra Pipelines & Storage	3
	<u>\$ 38</u>
Due from unconsolidated affiliates:	
Sempra Commodities	\$ 1
Sempra LNG	1
Parent and other	2
Total	<u>\$ 4</u>

* Nine months beginning April 1, 2008, when the partnership was formed.

** Includes \$10 million related to a marketing agreement with RBS Sempra Commodities which is subject to mark-to-market accounting. Under this agreement, which extends for five years beginning September 1, 2009, RBS Sempra Commodities will market natural gas that Sempra LNG purchases and does not sell under other contracts.

Revenues and Expenses with Unconsolidated Affiliates

For the quarter ended March 31, 2008, and for the full years 2007 and 2006, Sempra Commodities recorded \$55 million, \$303 million and \$173 million, respectively, of sales to unconsolidated affiliates. In addition, in 2006, Sempra Commodities recorded \$29 million of purchases from and \$95 million in sales to Topaz Power Partners

(Topaz), then an equity method investment of Sempra Energy. Topaz sold its power plant assets in July 2006, as discussed in Note 4.

DIVIDENDS AND LOANS AT THE SEMPRA UTILITIES

The CPUC's regulation of the Sempra Utilities' capital structures limits the amounts that are available for dividends and loans to Sempra Energy. At December 31, 2008, SDG&E could have provided a total of approximately \$150 million to Sempra Energy through dividends and loans. No amounts were available from SoCalGas at December 31, 2008.

OTHER INCOME (EXPENSE), NET

Other Income (Expense), Net on the Statements of Consolidated Income consists of the following:

OTHER INCOME (EXPENSE), NET <i>(Dollars in millions)</i>	Years ended December 31,		
	2008	2007	2006
Sempra Energy Consolidated			
Allowance for equity funds used during construction	\$ 35	\$ 22	\$ 16
Regulatory interest, net	(9)	(13)	(9)
Investment earnings (losses)*	(53)	27	27
Gain on interest-rate swaps	1	24	--
Mexican peso exchange losses**	(57)	--	--
Sundry, net	29	30	9
Total	\$ (54)	\$ 90	\$ 43
SDG&E			
Allowance for equity funds used during construction	\$ 27	\$ 17	\$ 10
Regulatory interest, net	(5)	(7)	(3)
Sundry, net	3	1	1
Total	\$ 25	\$ 11	\$ 8
SoCalGas and PE			
Allowance for equity funds used during construction	\$ 8	\$ 5	\$ 6
Regulatory interest, net	(4)	(6)	(6)
Sundry, net	(2)	(2)	(1)
Total at SoCalGas	2	(3)	(1)
Additional at PE:			
Preferred dividends of SoCalGas	(1)	(1)	(1)
Total	\$ 1	\$ (4)	\$ (2)

* Represents investment earnings (losses) on dedicated assets in support of our executive retirement and deferred compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans.

** These losses were largely offset by Mexican tax benefits arising from fluctuations in the US dollar/Mexican peso exchange rate and inflation rate.

NOTE 2. NEW ACCOUNTING STANDARDS

We describe below recent pronouncements that have had or may have a significant effect on our financial statements. We do not discuss recent pronouncements that are not anticipated to have a significant impact on or are unrelated to our financial condition, results of operations, or disclosures.

SEMPRA ENERGY, SDG&E AND SOCALGAS

SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS 161): SFAS 161 expands the disclosure requirements in SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133).

SFAS 161 requires disclosures about the following:

- § qualitative objectives and strategies for using derivatives;
- § quantitative disclosures of fair value amounts, and gains and losses on derivative instruments and related hedged items; and
- § credit-risk-related contingent features in derivative agreements.

SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Our 2009 financial statements will include the additional disclosures.

SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (SFAS 160): SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent.

SFAS 160 provides guidance on the following:

- § how to report noncontrolling interests in a subsidiary in consolidated financial statements;
- § the amount of consolidated net income attributable to the parent and to the noncontrolling interest; and
- § changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated.

The pronouncement also requires disclosures that clearly identify and distinguish between the interest of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and early adoption is prohibited. SFAS 160 must be applied prospectively, except for presentation and disclosure requirements for existing minority interests. These requirements must be applied retrospectively. Our 2009 financial statements will include the adoption of SFAS 160.

SFAS 141 (revised 2007), "Business Combinations" (SFAS 141(R)): SFAS 141(R) applies to all transactions or events in which an entity obtains control of one or more businesses, including those combinations achieved without transfer of consideration. In the context of a business combination, SFAS 141(R) establishes principles and requirements for how the acquirer recognizes the following:

- § assets acquired, including goodwill
- § assumed liabilities
- § noncontrolling interest in the acquired entity
- § contractual contingencies
- § contingent consideration

SFAS 141(R) requires that the acquirer in a business combination achieved in stages recognize identifiable assets and liabilities at the full amounts of their fair values. This statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effect of the business combination. SFAS 141(R) applies to us for business combinations with an acquisition date on or after January 1, 2009. Early adoption is prohibited.

FASB Staff Position (FSP) FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (FSP FAS 132(R)-1): FSP FAS 132(R)-1 requires disclosure about the assets held in postretirement benefit plans, including a breakdown by the level of the assets and a reconciliation of any change in Level 3 assets during the year. It requires that disclosures include information about the following:

- § valuation inputs, with detailed disclosure required about Level 3 assets
- § asset categories, broken down to relevant detail
- § concentration of risk in plan assets

FSP FAS 132(R)-1 applies prospectively for fiscal years ending after December 15, 2009. Early application is permitted. We are in the process of evaluating the effect of this statement on our financial statement disclosures.

FSP FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" (FSP FAS 140-4 and FIN 46(R)-8): This FSP amends SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to require additional disclosure about transfers of financial assets and variable interests in qualifying special-purpose entities. It also amends FIN 46(R) to require certain disclosures about an entity's involvement with variable interest entities, as follows:

- § details of the entity's involvement (both explicit and implicit arrangements) with the variable interest entity
- § financial or other support provided to the variable interest entity which was not contractually required and the primary reasons for providing the support
- § the methodology for determining the primary beneficiary and any changes in prior consolidation conclusions
- § the terms of any arrangements (both explicit and implicit) that could require the primary beneficiary to provide financial support to the variable interest entity

This FSP is effective for fiscal years ending after December 15, 2008. We provide the additional required disclosure in Note 1.

FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active" (FSP FAS 157-3): FSP FAS 157-3 clarifies and illustrates the application of SFAS 157 for financial assets in an inactive market. It became effective when issued on October 10, 2008 and applied to periods for which financial statements had not yet been issued. Revisions to the fair value estimates resulting from the adoption of the FSP are to be accounted for as a change in estimate, so that any effects on the fair value measurements would be recognized in the period of adoption. Our application of FSP FAS 157-3 impacted neither financial asset fair values nor their classification in the fair value hierarchy. Additional disclosure is provided in Note 11.

FSP FIN 39-1, "Amendment of FASB Interpretation No. 39" (FSP FIN 39-1): FSP FIN 39-1 amends certain paragraphs of FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*, to permit an entity to report all derivatives recorded at fair value on the balance sheet net of any associated fair value cash collateral when the derivative and cash collateral are with the same counterparty under a master netting arrangement. We adopted FSP FIN 39-1 effective January 1, 2008. We applied FSP FIN 39-1 as a change in accounting principle by applying it retrospectively. The consolidated balance sheets herein reflect the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when management believes a legal right of setoff exists. Accordingly, December 31, 2007 amounts for Sempra Energy and SDG&E have been reclassified to conform to this presentation. The adoption had a negligible impact on SoCalGas' financial statements.

SEMPRA ENERGY

FSP FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" (FSP FAS 133-1 and FIN 45-4): FSP FAS 133-1 and FIN 45-4 amends SFAS 133 to require sellers of credit derivatives to disclose information so that financial statement users can assess the potential effect of derivative instruments on the company's financial position, financial performance and cash flows. This FSP also amends FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to require guarantors to disclose the current status of the guarantee's performance risk. The FSP is effective prospectively for annual or interim reporting periods ending after November 15, 2008. Sempra Energy is a guarantor under certain arrangements and we provide the required disclosure in Notes 4 and 6.

FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP EITF 03-6-1): FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities. As such, they are required to be included when computing earnings per share (EPS) under the two-class method described in SFAS 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. All prior-period EPS data are to be adjusted retrospectively to conform with the provisions of this FSP. Early application is not permitted. We do not expect the adoption of FSP EITF 03-6-1 to have a material impact on our EPS.

EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations" (EITF 08-6): EITF 08-6 clarifies accounting and impairment considerations involving equity method investments. It provides the following guidance:

§ an entity shall measure an equity method investment at its accumulated cost;

§ an equity method investor should not separately test an investee's underlying assets for impairment; and

§ an equity method investee's issuance of shares should be accounted for by the equity method investor as if it sold a proportionate share of its investment.

The statement is effective prospectively for fiscal years beginning after December 15, 2008. We are in the process of evaluating the effects of this statement on our financial position and results of operations.

EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement" (EITF 08-5): EITF 08-5 provides that an issuer of a liability with a third-party credit enhancement that is inseparable from the liability may not include the effect of the credit enhancement in the fair value measurement of the liability. EITF 08-5 is effective prospectively for reporting periods beginning after December 15, 2008. We do not expect the effects of adopting EITF 08-5 to have a material impact on our financial position or results of operations.

NOTE 3. RECENT INVESTMENT ACTIVITY

SEMPRA COMMODITIES

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

We provide additional information about this transaction in Notes 4 and 6.

SEMPRA GENERATION

We provide information about investment activity at Sempra Generation in Notes 4 and 5.

SEMPRA PIPELINES & STORAGE

In October 2008, Sempra Pipelines & Storage acquired EnergySouth, an energy services holding company based in Mobile, Alabama for \$511 million in cash and the assumption of debt. Principal holdings of EnergySouth include EnergySouth Midstream and Mobile Gas. As a natural gas distribution utility, Mobile Gas serves approximately 93,000 customers in southwest Alabama. In December 2008, EnergySouth Midstream changed its name to Sempra Midstream.

Sempra Midstream is the general partner and 91-percent owner of Bay Gas Storage Company (Bay Gas) and owned 60 percent of Mississippi Hub, LLC (Mississippi Hub) through December 31, 2008. On January 16, 2009, Sempra Midstream acquired the remaining 40-percent ownership interest of Mississippi Hub for \$94 million.

Assets and liabilities assumed as of the acquisition date are:

<i>(Dollars in millions)</i>	September 30, 2008
ASSETS	
Current assets:	
Cash	\$ 16
Accounts receivable	31
Other current assets	121
Total current assets	<u>168</u>
Property, plant and equipment	609
Goodwill and other intangible assets	527 *
Other noncurrent assets	19
Total assets	<u>\$ 1,323</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 85
Current portion of long-term debt	212
Other current liabilities	43
Total current liabilities	<u>340</u>
Deferred income taxes	243
Long-term debt	114
Minority interest	86
Other noncurrent liabilities	29
Total liabilities	<u>\$ 812</u>
Net assets acquired	<u>\$ 511</u>

* As a result of the acquisition, we recorded \$67 million of goodwill, none of which is deductible for tax purposes.

The results of operations for EnergySouth from October 1, 2008 to December 31, 2008 are included in our Statements of Consolidated Income and Cash Flows.

We provide further information regarding the other intangibles acquired in Note 1.

We discuss Sempra Pipelines & Storage's investment in Rockies Express Pipeline LLC (Rockies Express) in Note 4.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We account for investments under the equity method when we have an ownership interest of 20 to 50 percent. In these cases, our pro rata shares of the subsidiaries' net assets are included in Other Investments and in Investment in RBS Sempra Commodities LLP on the Consolidated Balance Sheets. These investments are adjusted for our share of each investee's earnings or losses, dividends, and other comprehensive income or loss.

Equity in earnings of unconsolidated subsidiaries that is recorded before income tax is reported in Equity Earnings (Losses) – RBS Sempra Commodities LLP and in Equity Earnings (Losses) – Other on the Statements of Consolidated Income. Equity earnings recorded net of income tax recorded by the subsidiary are reported in Equity Earnings (Losses), Net of Income Tax, on the Statements of Consolidated Income.

The carrying value of unconsolidated subsidiaries is evaluated for impairment based on the requirements of APB Opinion 18, *The Equity Method of Accounting for Investments in Common Stock* (APB 18). We account for certain investments in housing partnerships made before May 19, 1995 under the cost method, whereby the costs were amortized over ten years based on the expected residual value. We have no unconsolidated subsidiaries where our ability to influence or control an investee differs from our ownership percentage.

We summarize our investment balances and earnings below:

EQUITY METHOD AND OTHER INVESTMENTS ON THE CONSOLIDATED BALANCE SHEETS		
<i>(Dollars in millions)</i>		
	Investment at December 31,	
	2008	2007
Sempra Commodities:		
Investment in RBS Sempra Commodities LLP	\$ 2,082	\$ --
Other equity method investments:		
Sempra Pipelines & Storage:		
Chilquinta Energía	\$ 364	\$ 497
Luz del Sur	183	182
Rockies Express	249	97
Sempra Generation:		
Elk Hills Power	198	205
Sempra Commodities—other investments	--	32
Housing partnerships	30	46
Total other equity method investments*	1,024	1,059
Cost method investments—housing partnerships	13	15
Other**	129	229
Total	\$ 1,166	\$ 1,303

* Includes \$60 million in Other Current Assets on the Consolidated Balance Sheets at December 31, 2007.

** Other includes Sempra Pipelines & Storage's \$128 million investment in bonds (discussed in Note 6) and, at December 31, 2007, available-for-sale securities at Sempra Commodities.

EQUITY METHOD INVESTMENTS ON THE STATEMENTS OF CONSOLIDATED INCOME*(Dollars in millions)*

	Years ended December 31,		
	2008	2007	2006
Earnings (losses) recorded before tax:			
RBS Sempra Commodities LLP	\$ 383	\$ --	\$ --
Elk Hills Power	\$ 8	\$ 9	\$ 1
Topaz Power Partners:			
Earnings from operations	--	--	9
Gain on sale of power plants	--	--	344
Housing partnerships	(14)	(14)	(17)
Rockies Express	43	(4)	1
	<u>\$ 37</u>	<u>\$ (9)</u>	<u>\$ 338</u>
Earnings (losses) recorded net of tax:			
Chilquinta Energía	\$ 28	\$ 28	\$ 25
Luz del Sur	31	27	24
Sodigas Pampeana and Sodigas Sur:			
Earnings from operations	1	4	6
Impairment loss, net of tax benefit of \$86	--	--	(221)
Sempra Commodities:			
Gain on sale of investments	--	30	--
Earnings from operations	3	10	(16)
	<u>\$ 63</u>	<u>\$ 99</u>	<u>\$ (182)</u>

For equity method investments, costs in excess of equity in net assets (goodwill) were \$213 million at December 31, 2008 and \$262 million at December 31, 2007. Costs in excess of the underlying equity in net assets will continue to be reviewed for impairment in accordance with APB 18. Descriptive information concerning these investments follows.

SEMPRA COMMODITIES

RBS Sempra Commodities is a United Kingdom limited liability partnership formed to own and operate the commodities-marketing businesses previously operated through wholly owned subsidiaries of Sempra Energy, as we discuss in Note 3. We account for our investment in RBS Sempra Commodities under the equity method. Our share of partnership earnings is reported in the Sempra Commodities segment. Subject to certain limited exceptions, partnership pretax income is allocated each year as follows:

§ First, we receive a preferred 15-percent return on our adjusted equity capital.

§ Next, RBS receives a preferred 15-percent return on any capital in excess of capital attributable to us that is required by the U.K. Financial Services Authority to be maintained by RBS in respect of the operations of the partnership.

§ Next, we receive 70 percent of the next \$500 million in pretax income; RBS receives the remaining 30 percent.

§ Then, we receive 30 percent and RBS receives 70 percent of any remaining pretax income.

§ Any losses of the partnership are shared equally between us and RBS.

For the nine months ended December 31, 2008, we had \$383 million of pretax equity earnings from RBS Sempra Commodities. The partnership income that is distributable to us on an annual basis is computed on the partnership's basis of accounting, International Financial Reporting Standards (IFRS) as adopted by the European Union. For the nine months ended December 31, 2008, this distributable income, on an IFRS basis, is \$389 million. In 2008, we received distributions of \$85 million from the partnership, as provided in the partnership agreement to fund estimated income tax payments.

We have indemnified the partnership for certain litigation and tax liabilities related to the businesses purchased by the partnership. We recorded these obligations at a fair value of \$5 million on April 1, 2008, the date we formed the partnership. The fair value of the indemnity provided to RBS Sempra Commodities has not significantly changed since April 1, 2008.

We provide information regarding the Sempra Commodities segment at December 31, 2008 and 2007 in Note 17.

The following tables show summarized financial information for RBS Sempra Commodities (on a GAAP basis):

RBS SEMPRA COMMODITIES	
SUMMARIZED FINANCIAL INFORMATION	
<i>(Dollars in millions)</i>	
	Nine months ended December 31, 2008
Gross revenues	\$ 2,051
Gross profit	1,370
Income from continuing operations	592
Net income	592
	At December 31, 2008
Current assets	\$ 8,713
Noncurrent assets	516
Current liabilities	5,581

Investments in Other Unconsolidated Subsidiaries

In February 2007, Sempra Commodities sold its interests in an equity method investment, along with a related cost-basis investment, receiving cash and a 12.7-percent interest in a newly formed entity. The after-tax gain on this transaction, recorded in Equity Earnings (Losses), Net of Income Tax, on the Statements of Consolidated Income, was \$30 million.

Available-for-Sale Securities

Sempra Commodities had \$80 million of available-for-sale securities included in Other Investments at December 31, 2007. At December 31, 2007, the balance in Accumulated Other Comprehensive Income (Loss) related to these securities was \$28 million net of income tax, comprised of \$28 million of unrealized gains and a negligible amount of unrealized losses.

Sempra Commodities recorded purchases of available-for-sale securities of \$1 million in the first quarter of 2008 and \$12 million in the year 2007. Sempra Commodities had no sales of available-for-sale securities in 2008 prior to the formation of the joint venture. Sempra Commodities sold \$20 million of available-for-sale securities in 2007, yielding proceeds of \$54 million. The cost basis of the sales was determined by the specific identification method and pretax gains of \$34 million were realized as a result of the sales in 2007. There was no impairment of available-for-sale securities in 2008.

SEMPRA GENERATION

The 550-MW Elk Hills Power (Elk Hills) plant located near Bakersfield, California began commercial operations in July 2003. Elk Hills is 50-percent owned by Sempra Generation.

In July 2004, Topaz, a 50/50 joint venture between Sempra Generation and Riverstone Holdings, acquired ten Texas power plants from American Electric Power (AEP), including the 632-MW coal-fired Coletto Creek Power Station (Coletto Creek) and three natural gas and oil-fired plants in Laredo, San Benito and Corpus Christi, Texas. In July 2006, Sempra Generation and Riverstone Holdings sold Coletto Creek for a total of \$1.15 billion in cash. The majority of the proceeds from the sale were distributed by Topaz as a dividend to Sempra Generation and Riverstone Holdings. The sale of the plant resulted in a pretax gain of \$353 million for Sempra Generation, which was reported

in Equity Earnings (Losses) – Other, on the Statements of Consolidated Income. In a separate transaction, also in July 2006, Sempra Generation sold its interests in the natural gas plants that it acquired in connection with the Coletto Creek plant. An impairment loss of \$9 million pretax related to the sale of the natural gas plants was recorded in 2006. In accordance with GAAP, because our interests in Topaz are reported under the equity method, they are not reported as a discontinued operation.

The following table shows summarized financial information for Topaz and ignores any reclassifications necessary for discontinued operations reporting by Topaz:

SUMMARIZED FINANCIAL INFORMATION FOR TOPAZ	
<i>(Dollars in millions)</i>	
	Year ended December 31, 2006
Gross revenues	\$ 212
Gross profit	71
Income from operations	21
Gain on sale of assets	705
Net income	726

SEMPRA PIPELINES & STORAGE

In 2006, Sempra Pipelines & Storage consummated an agreement with Kinder Morgan Energy Partners, L.P. (KMP) to jointly pursue through Rockies Express the development of a proposed natural gas pipeline, the Rockies Express Pipeline (REX), that would link producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Currently, KMP, Sempra Pipelines & Storage and ConocoPhillips (Conoco) own interests of 51 percent, 25 percent and 24 percent, respectively, in Rockies Express. Upon completion of construction of the pipeline, Conoco will acquire an additional one-percent interest from KMP. We made contributions to Rockies Express of \$150 million in 2008 and \$100 million in 2007. Through financing received by Rockies Express in 2006, Sempra Pipelines & Storage and KMP were repaid their initial capital contributions, which was reported in Distributions from Investments on the Statements of Consolidated Cash Flows. We provide additional information in Note 6.

Sempra Pipelines & Storage owns a 50-percent interest in Chilquinta Energía S.A., a Chilean electric utility, and a 38-percent interest in Luz del Sur, a Peruvian electric utility. Sempra Pipelines & Storage also owns 43 percent of two Argentine natural gas utility holding companies, Sodigas Pampeana and Sodigas Sur. As a result of the devaluation of the Argentine peso at the end of 2001 and subsequent changes in the value of the peso, Sempra Pipelines & Storage has reduced the carrying value of its investment downward by a cumulative total of \$270 million as of December 31, 2008. These noncash adjustments, based on fluctuations in the value of the Argentine peso, did not affect net income, but were recorded in Comprehensive Income and Accumulated Other Comprehensive Income (Loss).

The related Argentine economic decline and government responses (including Argentina's unilateral, retroactive abrogation of utility agreements early in 2002) continue to adversely affect the operations of these Argentine utilities. In 2002, Sempra Pipelines & Storage initiated arbitration proceedings at the International Center for the Settlement of Investment Disputes (ICSID) under the 1994 Bilateral Investment Treaty between the United States and Argentina for recovery of the diminution of the value of its investments that has resulted from Argentine governmental actions. In September 2007, the tribunal officially closed the arbitration proceedings and awarded us compensation of \$172 million, which includes interest up to the award date. In January 2008, Argentina filed an action at the ICSID seeking to annul the award. We will not recognize the award until collectibility is assured.

In December 2006, we decided to sell our Argentine investments, and we continue to actively pursue their sale. We adjusted our investments to estimated fair value and recorded a noncash impairment charge to fourth quarter 2006 net income of \$221 million. The charge to net income is reported in Equity Earnings (Losses), Net of Income Tax, on the Statements of Consolidated Income.

The following tables show summarized financial information for Sodigas Pampeana and Sodigas Sur:

SODIGAS PAMPEANA AND SODIGAS SUR – SUMMARIZED FINANCIAL INFORMATION			
<i>(Dollars in millions)</i>			
	Years ended December 31,		
	2008	2007	2006
Gross revenues	\$ 232	\$ 227	\$ 215
Gross profit	110	111	97
Income from operations	12	21	17
Gain on sale of assets	1	1	1
Net income	4	14	11

	At December 31,	
	2008	2007
Current assets	\$ 93	\$ 117
Noncurrent assets	323	332
Current liabilities	192	198
Noncurrent liabilities	25	38

SEMPRA FINANCIAL

Prior to June 2006, Sempra Financial invested as a limited partner in affordable-housing properties. Sempra Financial's portfolio included 1,300 properties throughout the United States that provided income tax benefits (primarily from income tax credits) generally over 10-year periods.

In June 2006, Sempra Financial effectively sold the majority of its interests in affordable-housing projects to an unrelated party for \$83 million subject to certain guarantees. Because of the guarantees, the transaction has been recorded as a financing transaction rather than as a sale, and we continue to consolidate the investments in the housing partnerships. The transaction almost completely eliminated the income tax benefits from the affordable-housing investments.

OTHER EQUITY METHOD INFORMATION

We present aggregated information below for:

- § Chilquinta Energía
- § Luz del Sur
- § Elk Hills Power
- § Rockies Express
- § Sempra Commodities' investments (prior to the formation of RBS Sempra Commodities)
- § Sempra Energy's housing partnerships (accounted for under the equity method)

OTHER EQUITY METHOD INFORMATION*(Dollars in millions)*

	Years ended December 31,		
	2008	2007	2006
Gross revenues	\$ 1,852	\$ 1,570	\$ 1,458
Gross profit	487	456	480
Income from operations	234	225	284
Gain (loss) on sale of assets	(46)	7	9
Net income	171	138	246

	At December 31,	
	2008	2007
Current assets	\$ 795	\$ 921
Noncurrent assets	2,091	2,256
Current liabilities	324	494
Noncurrent liabilities	519	936

NOTE 5. DISCONTINUED OPERATIONS

In the second quarter of 2006, Sempra Generation sold its 305-MW, coal-fired Twin Oaks Power plant (Twin Oaks) in Texas for \$479 million in cash. Also in the second quarter, Sempra Generation completed the sales of Energy Services, which provided energy-saving facilities, and Facilities Management, which managed building heating and cooling facilities, for a total of \$95 million in cash.

In the third quarter of 2006, Sempra Generation sold its exploration and production subsidiary, Sempra Energy Production Company (SEPCO), for \$225 million in cash.

In June 2006, in line with our previously announced plan to focus resources on the development of our core businesses, we decided to sell Bangor Gas and Frontier Energy, Sempra Pipelines & Storage's natural gas distribution companies located in Maine and North Carolina, respectively. In accordance with SFAS 144, we recorded an after-tax impairment loss of \$40 million in 2006. The sales of Frontier Energy and Bangor Gas were completed on September 30, and November 30, 2007, respectively, for a total of \$5 million in cash.

In accordance with SFAS 144, we have reported the above operations as discontinued for all periods presented in our Consolidated Financial Statements.

We summarize the income statement information concerning our discontinued operations in the table below.

DISCONTINUED OPERATIONS*(Dollars in millions)*

	Years ended December 31,	
	2007	2006
Revenues	\$ 10	\$ 89
Income from operations, before income taxes	\$ 2	\$ 20
Impairment loss	--	(68)
Income tax expense (benefit)	4	(20)
Consolidated state tax adjustment	--	1
	(2)	(27)
Gain (loss) on disposal, before income taxes	(2)	525
Income tax expense	23	174
Consolidated state tax adjustment	1	(9)
	(24)	342
	\$ (26)	\$ 315

NOTE 6. DEBT AND CREDIT FACILITIES

COMMITTED LINES OF CREDIT

At December 31, 2008, Sempra Energy had \$4.3 billion in committed lines of credit to provide liquidity and to support commercial paper and variable-rate demand notes - the major components of which are detailed below. Available unused credit on these lines at December 31, 2008 was \$2.9 billion.

Due to the sale of the commodities-marketing businesses as discussed in Note 3, these amounts exclude lines of credit associated with Sempra Commodities, some of which we continue to guarantee, as we discuss below in "RBS Sempra Commodities." By the end of June 2008, RBS had replaced Sempra Energy as guarantor on all uncommitted lines of credit associated with Sempra Commodities. To the extent that Sempra Energy's credit support arrangements, including Sempra Commodities' committed facilities, have not been terminated or replaced, RBS has indemnified Sempra Energy for any claims or losses arising in connection with those arrangements.

Sempra Global

Sempra Global has a \$2.5 billion, three-year syndicated revolving credit agreement expiring in 2011. Citibank, N.A. serves as administrative agent for the syndicate of 18 lenders. No single bank has greater than a 10.7 percent share. The facility also provides for issuance of up to \$300 million of letters of credit on behalf of Sempra Global with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

Sempra Energy guarantees Sempra Global's obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. The facility also requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65% at the end of each quarter.

At December 31, 2008, Sempra Global had letters of credit of \$17 million outstanding and no outstanding borrowings under the facility. The facility provides support for \$1.1 billion of commercial paper outstanding at December 31, 2008. At December 31, 2008, \$600 million of the commercial paper outstanding has been reclassified to long-term debt based on management's intent and ability to maintain this level of borrowing on a long-term basis either supported by this credit facility or by issuing long-term debt. This reclassification had no impact on cash flows.

Sempra Generation

Sempra Generation has a \$1 billion, three-year syndicated revolving credit agreement expiring in 2011. Citibank, N.A. serves as administrative agent for the syndicate of 17 lenders. No single bank has greater than a 10.7 percent share.

Sempra Energy guarantees Sempra Generation's obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. The facility also requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65% at the end of each quarter.

At December 31, 2008, Sempra Generation had no outstanding borrowings under the facility.

Sempra Utilities

SDG&E and SoCalGas have a combined \$800 million, three-year syndicated revolving credit agreement expiring in 2011. JPMorgan Chase Bank serves as administrative agent for the syndicate of 17 lenders. No single bank has greater than a 9.9 percent share. The agreement permits each utility to individually borrow up to \$600 million, subject to a combined limit of \$800 million for both utilities. It also provides for the issuance of letters of credit on behalf of each utility subject to a combined letter of credit commitment of \$200 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit.

Borrowings under the facility bear interest at benchmark rates plus a margin that varies with market index rates and the borrowing utility's credit rating. The agreement also requires each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65% at the end of each quarter.

Each utility's obligations under the agreement are individual obligations, and a default by one utility would not constitute a default by the other utility or preclude borrowings by, or the issuance of letters of credit on behalf of, the other utility.

At December 31, 2008, SDG&E and SoCalGas had no outstanding borrowings under this facility. SDG&E had \$110 million of outstanding letters of credit and \$237 million of variable-rate demand notes outstanding supported by this facility at December 31, 2008.

RBS Sempra Commodities

RBS is obligated to provide RBS Sempra Commodities with all growth capital, working-capital requirements and credit support. However, as a transitional measure, we continue to provide back-up guarantees for a portion of RBS Sempra Commodities' trading obligations and for certain credit facilities with third party lenders pending novation (legal transfer) of the remaining trading obligations to RBS. Some of these back-up guarantees may continue for a prolonged period of time. RBS has fully indemnified us for any claims or losses in connection with these arrangements. RBS has been greatly affected by the world-wide turmoil in banking and became indirectly controlled by the government of the United Kingdom on December 1, 2008.

RBS Sempra Commodities' net trading liabilities and credit facilities supported by Sempra Energy's guarantees at December 31, 2008 were

§ \$1.1 billion of net trading liabilities consisting of guaranteed trading obligations net of collateral. The amount of guaranteed net trading liabilities varies from day to day with the value of the trading obligations and related collateral.

§ \$500 million under a three-year revolving credit facility expiring in May 2009.

Sempra Energy also has guaranteed \$344 million of \$1.72 billion of RBS Sempra Commodities' commitments under an additional credit facility expiring September 29, 2010. Extensions of credit under the committed facility are limited to and secured by a borrowing base consisting of receivables, inventories and other joint venture assets that are valued at varying percentages of current market value. At December 31, 2008, the gross market value of the borrowing base assets was \$2.9 billion. The facility will be reduced and end as the borrowing base assets are transferred to RBS as established by the joint venture agreement.

OTHER GUARANTEES

As discussed in Note 4, Sempra Energy, Conoco and KMP currently hold 25 percent, 24 percent and 51 percent ownership interests, respectively, in Rockies Express. Rockies Express is constructing a natural gas pipeline to link natural gas producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Rockies Express has a \$2 billion, five-year credit facility expiring in 2011 that provides for revolving extensions of credit that are guaranteed by Sempra Energy, Conoco and KMP in proportion to their respective ownership percentages.

Borrowings under the facility bear interest at rates varying with market rates plus a margin that varies with the credit ratings of the lowest-rated guarantor. The facility requires each guarantor to comply with various financial and other covenants comparable to those contained in its senior unsecured credit facilities. In the case of Sempra Energy, the primary requirement is that we maintain a ratio of total indebtedness to total capitalization (as defined in the facility) of no more than 65 percent at the end of each quarter. Rockies Express had \$1.6 billion of outstanding borrowings under this facility at December 31, 2008. In addition, Rockies Express had \$600 million of floating rate notes outstanding at December 31, 2008 and maturing in September 2009 that are guaranteed by Sempra Energy, Conoco and KMP in proportion to their respective ownership percentages. The fair value to us of these guarantees is negligible.

WEIGHTED AVERAGE INTEREST RATE

The weighted average interest rate on the total short-term debt outstanding at Sempra Energy, including commercial paper borrowings classified as long-term, was 4.985 percent at December 31, 2008.

LONG-TERM DEBT

The following tables show the detail and maturities of long-term debt outstanding:

	December 31,	
	2008	2007
LONG-TERM DEBT		
<i>(Dollars in millions)</i>		
SDG&E		
First mortgage bonds:		
6.8% June 1, 2015	\$ 14	\$ 14
5.3% November 15, 2015	250	250
Variable rate (1% at December 31, 2008) July 2018 (1)	161	161
5.85% June 1, 2021 (1)	60	60
6% June 1, 2026	250	250
5% to 5.25% December 1, 2027 (1)	150	150
2.516% to 2.832% January and February 2034 (1) (2)	176	176
5.35% May 15, 2035	250	250
6.125% September 15, 2037	250	250
Variable rate (1.45% at December 31, 2008) May 1, 2039 (1)	75	75
	<u>1,636</u>	<u>1,636</u>
Other long-term debt (unsecured, unless otherwise noted):		
5.9% June 1, 2014	130	130
5.3% July 1, 2021 (1)	39	39
5.5% December 1, 2021 (1)	60	60
4.9% March 1, 2023 (1)	25	25
OMECE LLC project financing at 6.2% payable 2009 through April 2019 (secured by project assets) (3)	256	63
Other	--	7
	<u>510</u>	<u>324</u>
	<u>2,146</u>	<u>1,960</u>
Current portion of long-term debt	(2)	--
Unamortized discount on long-term debt	(2)	(2)
Total SDG&E	<u>2,142</u>	<u>1,958</u>
SoCalGas		
First mortgage bonds:		
Variable rate (2.37% at December 31, 2008) December 1, 2009	100	100
4.375% January 15, 2011	100	100
Variable rates after fixed-to-floating rate swaps (2.05% at December 31, 2008) January 15, 2011	150	150
4.8% October 1, 2012	250	250
5.5% March 15, 2014	250	--
5.45% April 15, 2018	250	250
5.75% November 15, 2035	250	250
	<u>1,350</u>	<u>1,100</u>
Other long-term debt (unsecured):		
4.75% May 14, 2016 (1)	8	8
5.67% January 18, 2028	5	5
Market value adjustments for interest-rate swap, net (expires January 18, 2011)	9	2
	<u>22</u>	<u>15</u>
	<u>1,372</u>	<u>1,115</u>
Current portion of long-term debt	(100)	--
Unamortized discount on long-term debt	(2)	(2)
Total SoCalGas	<u>1,270</u>	<u>1,113</u>

Other Sempra Energy

First mortgage bonds:

6.9% payable 2009 through 2017	8	--
8.75% payable 2009 through 2022	9	--
7.48% payable 2009 through 2023	7	--
	<u>24</u>	<u>--</u>

Other long-term debt (unsecured unless otherwise noted):

Commercial paper borrowings at variable rates, classified as long-term debt (5.22% weighted average at December 31, 2008)	600	--
9.8% Notes February 15, 2019	500	--
6.15% Notes June 15, 2018	500	--
6% Notes February 1, 2013	400	400
Notes at variable rates after fixed-to-floating swap (5.06% at December 31, 2008) March 1, 2010	300	300
4.75% Notes May 15, 2009	300	300
8.9% Notes November 15, 2013	250	--
7.95% Notes March 1, 2010	200	200
6.3% Notes December 31, 2021 (1)	128	128
Employee Stock Ownership Plan		
Bonds at 5.781% (fixed through July 1, 2010) November 1, 2014 (1)	50	50
Bonds at variable rates (5.26% at December 31, 2008) November 1, 2014 (1)	22	33
Notes at 2.87% to 5.05% payable 2010 through 2013 (1)	58	41
Industrial development bond at variable rates (1.05% at December 31, 2008) August 1, 2037, secured (1)	55	--
Debt incurred to acquire limited partnerships, secured by real estate, at 8.05% January 15, 2009	2	9
8.45% Notes payable 2009 through 2017, secured	39	--
Other debt	1	21
Market value adjustments for interest-rate swap, net (expiring March 1, 2010)	15	9
	<u>3,420</u>	<u>1,491</u>
	3,444	1,491
Current portion of long-term debt	(308)	(7)
Unamortized discount on long-term debt	(4)	(2)
	<u>3,132</u>	<u>1,482</u>
Total other Sempra Energy	\$ 6,544	\$ 4,553

(1) Callable long-term debt.

(2) After floating-to-fixed rate swaps expiring in 2009.

(3) After floating-to-fixed rate swaps expiring in 2019.

MATURITIES OF LONG-TERM DEBT*

(Dollars in millions)

	SDG&E	SoCalGas	Other Sempra Energy	Total Sempra Energy Consolidated
2009	\$ 2	\$ 100	\$ 308	\$ 410
2010	7	--	520	527
2011	7	250	29	286
2012	7	250	12	269
2013	7	--	672	679
Thereafter	2,116	763	1,888	4,767
Total	\$ 2,146	\$ 1,363	\$ 3,429	\$ 6,938

* Excludes market value adjustments for interest-rate swaps.

Various long-term obligations totaling \$3.6 billion at Sempra Energy at December 31, 2008 are unsecured. This includes unsecured long-term obligations totaling \$254 million at SDG&E and \$13 million at SoCalGas.

In November 2008, Sempra Energy publicly offered and sold \$250 million of 8.9-percent notes maturing in 2013 and \$500 million of 9.8-percent notes maturing in 2019. In June 2008, Sempra Energy publicly offered and sold \$500 million of 6.15-percent notes, maturing in 2018.

CALLABLE LONG-TERM DEBT

At the option of Sempra Energy, SDG&E and SoCalGas, certain debt is callable subject to premiums at various dates:

CALLABLE LONG-TERM DEBT						
<i>(Dollars in millions)</i>						
	SDG&E		SoCalGas		Other Sempra Energy	Total Sempra Energy Consolidated
2009	\$	472	\$	--	\$ 262	\$ 734
2010		--		--	50	50
2013		45		--	--	45
after 2013		229		8	--	237
Total	\$	746	\$	8	\$ 312	\$ 1,066
Callable bonds subject to make-whole provisions	\$	1,000	\$	1,250	\$ 2,513	\$ 4,763

In addition, the OMEC LLC project financing loan, discussed in Note 1, with \$256 million of borrowings at December 31, 2008, may be prepaid at the borrower's option.

FIRST MORTGAGE BONDS

The Sempra Utilities issue first mortgage bonds which are secured by a lien on utility plant. The Sempra Utilities may issue additional first mortgage bonds upon compliance with the provisions of their bond agreements (indentures). These indentures require, among other things, the satisfaction of pro forma earnings-coverage tests on first mortgage bond interest and the availability of sufficient mortgaged property to support the additional bonds, after giving effect to prior bond redemptions. The most restrictive of these tests (the property test) would permit the issuance, subject to CPUC authorization, of an additional \$2.9 billion of first mortgage bonds at SDG&E and \$324 million at SoCalGas at December 31, 2008.

In November 2008, SoCalGas publicly offered and sold \$250 million of 5.50-percent first mortgage bonds maturing in 2014.

INDUSTRIAL DEVELOPMENT BONDS

During 2008, Sempra Energy purchased \$413 million of industrial development bonds, net of sales and purchases with SDG&E as the cash flow needs of each entity changed. SDG&E purchased \$488 million of the bonds during 2008, and sold \$228 million to Sempra Energy during 2008. The bonds were initially issued as insured, auction-rate securities, the proceeds of which were loaned to SDG&E, and are repaid with payments from SDG&E first mortgage bonds that have terms corresponding to those of the industrial development bonds that they secure.

In December 2008, SDG&E remarketed \$237 million of these industrial development bonds. These included \$75 million remarketed at an initial daily floating-rate of 0.65 percent (maturing in 2039), and \$161 million remarketed for a three-month term at a rate of 1.00 percent (maturing in 2018). Beginning in March 2009, the interest rate on the \$161 million series will be reset on a weekly basis.

The remaining industrial development bonds, \$24 million held by SDG&E and \$152 million held by Sempra Energy, are classified as available-for-sale securities and included in Short-Term Investments on the Consolidated Balance Sheets at December 31, 2008. Sempra Energy and SDG&E intend to remarket the remaining bonds in early

2009 and to modify the credit support and liquidity requirements of the remaining bonds in conjunction with their remarketing to investors.

In 2006, in order to reduce its property tax, Sempra Pipelines & Storage incurred \$128 million of long-term debt related to the development of its Liberty Gas Storage (Liberty) facility in Calcasieu Parish, Louisiana. The debt is payable to the Calcasieu Parish Industrial Development Board. Related to the debt, we recorded bonds receivable from the Industrial Development Board for the same amount. Both the financing obligation and the bonds receivable have interest rates of 6.3 percent and are due on December 31, 2021.

DEBT OF EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) AND TRUST (TRUST)

The ESOP covers substantially all Sempra Energy employees, including SDG&E and SoCalGas. The Trust is used to fund part of the retirement savings plan described in Note 9. The notes of the ESOP are payable by the Trust and mature in 2014.

In July 2007, \$50 million of these notes was repriced at an interest rate of 5.781 percent for a three-year term ending July 1, 2010. The remaining \$22 million of the notes is repriced weekly and subject to repurchase at our option. ESOP debt was paid down by a total of \$32 million during the last three years when 739,220 shares of Sempra Energy common stock were released from the Trust in order to fund employer contributions to the Sempra Energy savings plan trust. Interest on the ESOP debt amounted to \$4 million in each of 2008, 2007 and 2006. Dividends used for debt service amounted to \$2 million in each of 2008, 2007 and 2006.

INTEREST-RATE SWAPS

We discuss our fair value interest-rate swaps and interest-rate swaps to hedge cash flows in Note 11.

NOTE 7. FACILITIES UNDER JOINT OWNERSHIP

San Onofre Nuclear Generating Station (SONGS) and the Southwest Powerlink transmission line are owned jointly by SDG&E with other utilities. SDG&E's interests at December 31, 2008 were as follows:

<i>(Dollars in millions)</i>	SONGS	Southwest Powerlink
Percentage ownership	20%	91%
Utility plant in service	\$ 90	\$ 314
Accumulated depreciation and amortization	22	176
Construction work in progress	113	7

SDG&E, and each of the other owners, holds its undivided interest as a tenant in common in the property. Each owner is responsible for financing its share of each project and participates in decisions concerning operations and capital expenditures.

SDG&E's share of operating expenses is included in Sempra Energy's and SDG&E's Statements of Consolidated Income.

SONGS DECOMMISSIONING

Objectives, work scope, and procedures for the dismantling and decontamination of the SONGS' units must meet the requirements of the Nuclear Regulatory Commission (NRC), the Environmental Protection Agency, the U.S. Department of the Navy (the land owner), the CPUC and other regulatory bodies.

SDG&E's asset retirement obligation related to decommissioning costs for the SONGS units was \$445 million at December 31, 2008. That amount includes the cost to decommission Units 2 and 3, and the remaining cost to

complete the decommissioning of Unit 1, which is currently in progress. Southern California Edison updates decommissioning cost studies every three years. In January 2007, the CPUC approved the most recent update. Rate recovery of decommissioning costs is allowed until the time that the costs are fully recovered and is subject to adjustment every three years based on the costs allowed by regulators. Collections are authorized to continue until 2022.

Unit 1 was permanently shut down in 1992, and physical decommissioning began in January 2000. Most structures, foundations and large components have been dismantled, removed and disposed of. Spent nuclear fuel has been removed from the Unit 1 Spent Fuel Pool and stored on-site in an independent spent fuel storage installation (ISFSI) licensed by the NRC. The remaining major work will include dismantling, removal and disposal of all remaining equipment and facilities (both nuclear and non-nuclear components), and decontamination of the site. Southern California Edison expects Phase I of decommissioning activities to be complete in the first quarter of 2009. The decommissioning of Unit 1 remaining structures (subsurface and intake/discharge) will take place when Units 2 & 3 are decommissioned. The ISFSI will be decommissioned after a permanent storage facility becomes available and the U.S. Department of Energy (DOE) removes the spent fuel from the site. The Unit 1 reactor vessel is expected to remain on site until Units 2 and 3 are decommissioned.

The amounts collected in rates for SONGS' decommissioning are invested in externally managed trust funds. Amounts held by the trusts are invested in accordance with CPUC regulations. These trusts are shown on the Sempra Energy and SDG&E Consolidated Balance Sheets at fair value with the offsetting credits recorded in Asset Retirement Obligations and Regulatory Liabilities Arising from Removal Obligations.

The following table shows the fair values and gross unrealized gains and losses for the securities held in the trust funds.

NUCLEAR DECOMMISSIONING TRUSTS				
<i>(Dollars in millions)</i>				
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2008:				
Debt securities				
U.S. government issues*	\$ 127	\$ 28	\$ --	\$ 155
Municipal bonds**	69	1	(9)	61
Total debt securities	196	29	(9)	216
Equity securities	251	105	(36)	320
Cash and other securities***	40	3	(2)	41
Total available-for-sale securities	\$ 487	\$ 137	\$ (47)	\$ 577
As of December 31, 2007:				
Debt securities				
U.S. government issues	\$ 168	\$ 15	\$ --	\$ 183
Municipal bonds	77	1	(2)	76
Total debt securities	245	16	(2)	259
Equity securities	204	234	(4)	434
Cash and other securities	44	2	--	46
Total available-for-sale securities	\$ 493	\$ 252	\$ (6)	\$ 739
* Maturity dates are 2009-2038				
** Maturity dates are 2009-2043				
*** Maturity dates are 2009-2049				

The following table shows the proceeds from sales of securities in the trusts and gross realized gains and losses on those sales.

SALES OF SECURITIES <i>(Dollars in millions)</i>	Years ended December 31,		
	2008	2007	2006
	Proceeds from sales	\$ 458	\$ 578
Gross realized gains	18	18	22
Gross realized losses	(40)	(12)	(13)

Net unrealized gains (losses) are included in Regulatory Liabilities Arising from Removal Obligations on the Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

The fair value of securities in an unrealized loss position as of December 31, 2008 was \$146 million. The unrealized losses of \$47 million were primarily caused by a negative market environment. We do not consider these investments to be other than temporarily impaired as of December 31, 2008.

Customer contribution amounts are determined by the CPUC using estimates of after-tax investment returns, decommissioning costs, and decommissioning cost escalation rates. Changes in investment returns and decommissioning costs may result in a change in future customer contributions.

We discuss the impact of SFAS 143 in Note 1. We provide additional information about SONGS in Notes 14 and 16.

NOTE 8. INCOME TAXES

Reconciliation of the U.S. statutory federal income tax rates to the effective income tax rates are as follows:

	Years ended December 31,		
	2008	2007	2006
RECONCILIATION OF FEDERAL INCOME TAX RATES TO EFFECTIVE INCOME TAX RATES			
Sempra Energy Consolidated			
Statutory federal income tax rate	35 %	35 %	35 %
Utility depreciation	3	3	2
State income taxes, net of federal income tax benefit	3	4	4
Tax credits	(1)	(3)	(4)
Allowance for equity funds used during construction	(1)	(1)	--
Foreign income taxes	(2)	(1)	(1)
Resolution of Internal Revenue Service audits	(2)	--	(1)
Utility repair allowance	(1)	(1)	(1)
Self-developed software expenditures	(2)	(1)	--
Mexican foreign exchange and inflation effects	(2)	--	--
Other, net	(1)	(1)	(1)
Effective income tax rate	29 %	34 %	33 %
SDG&E			
Statutory federal income tax rate	35 %	35 %	35 %
Depreciation	4	5	5
State income taxes, net of federal income tax benefit	5	5	5
Allowance for equity funds used during construction	(2)	(1)	(1)
Resolution of Internal Revenue Service audits	(3)	(3)	2
Utility repair allowance	(2)	(2)	(2)
Self-developed software expenditures	(3)	(2)	--
Regulatory reserve release	--	(2)	--
Other, net	(2)	(3)	(5)
Effective income tax rate	32 %	32 %	39 %
PE			
Statutory federal income tax rate	35 %	35 %	35 %
Depreciation	5	6	6
State income taxes, net of federal income tax benefit	4	5	6
Self-developed software expenditures	(3)	(1)	--
Other, net	(5)	(4)	(3)
Effective income tax rate	36 %	41 %	44 %
SoCalGas			
Statutory federal income tax rate	35 %	35 %	35 %
Depreciation	6	6	6
State income taxes, net of federal income tax benefit	4	5	6
Self-developed software expenditures	(3)	(1)	--
Other, net	(6)	(4)	(3)
Effective income tax rate	36 %	41 %	44 %

The geographic components of Income from Continuing Operations Before Income Taxes and Equity in Earnings of Certain Unconsolidated Subsidiaries at Sempra Energy are as follows:

(Dollars in millions)	Years ended December 31,		
	2008	2007	2006
Domestic	\$ 1,244	\$ 1,282	\$ 1,682
Foreign	244	268	232
Total	\$ 1,488	\$ 1,550	\$ 1,914

The components of income tax expense are as follows:

INCOME TAX EXPENSE			
<i>(Dollars in millions)</i>			
	Years ended December 31,		
	2008	2007	2006
Sempra Energy Consolidated			
Current:			
Federal	\$ (10)	\$ 247	\$ 416
State	28	77	96
Foreign	96	51	52
Total	114	375	564
Deferred:			
Federal	359	124	90
State	29	(5)	(36)
Foreign	(59)	36	28
Total	329	155	82
Deferred investment tax credits	(5)	(6)	(5)
Total income tax expense	\$ 438	\$ 524	\$ 641
SDG&E			
Current:			
Federal	\$ 25	\$ 131	\$ 209
State	23	44	73
Total	48	175	282
Deferred:			
Federal	107	(24)	(87)
State	8	(14)	(40)
Total	115	(38)	(127)
Deferred investment tax credits	(2)	(2)	(3)
Total income tax expense	\$ 161	\$ 135	\$ 152
PE			
Current:			
Federal	\$ 28	\$ 122	\$ 168
State	21	33	44
Total	49	155	212
Deferred:			
Federal	89	15	(17)
State	6	(2)	(6)
Total	95	13	(23)
Deferred investment tax credits	(3)	(3)	(3)
Total income tax expense	\$ 141	\$ 165	\$ 186
SoCalGas			
Current:			
Federal	\$ 31	\$ 119	\$ 156
State	22	33	41
Total	53	152	197
Deferred:			
Federal	85	14	(15)
State	5	(3)	(6)
Total	90	11	(21)
Deferred investment tax credits	(3)	(3)	(3)
Total income tax expense	\$ 140	\$ 160	\$ 173

ACCUMULATED DEFERRED INCOME TAXES FOR SEMPRA ENERGY CONSOLIDATED		
<i>(Dollars in millions)</i>		
	December 31,	
	2008	2007
Deferred tax liabilities:		
Differences in financial and tax bases of depreciable and amortizable assets	\$ 1,323	\$ 864
Regulatory balancing accounts	632	152
Unrealized revenue	22	63
Loss on reacquired debt	21	24
Property taxes	31	29
Other	53	32
Total deferred tax liabilities	<u>2,082</u>	<u>1,164</u>
Deferred tax assets:		
Investment tax credits	37	42
Equity losses	6	34
Net operating losses of separate state and foreign entities	77	125
Compensation-related items	193	169
Postretirement benefits	609	148
Other deferred assets	4	34
State income taxes	35	34
Bad debt allowance	7	13
Litigation and other accruals not yet deductible	233	322
Total deferred tax assets	<u>1,201</u>	<u>921</u>
Net deferred income tax liability before valuation allowance	881	243
Valuation allowance	34	41
Net deferred income tax liability	<u>\$ 915</u>	<u>\$ 284</u>

ACCUMULATED DEFERRED INCOME TAXES FOR SDG&E, PE AND SOCIALGAS						
<i>(Dollars in millions)</i>						
	SDG&E		PE		SoCalGas	
	December 31,		December 31,		December 31,	
	2008	2007	2008	2007	2008	2007
Deferred tax liabilities:						
Differences in financial and tax bases of utility plant and other assets	\$ 625	\$ 481	\$ 278	\$ 206	\$ 281	\$ 210
Regulatory balancing accounts	229	82	413	79	413	79
Loss on reacquired debt	10	11	13	14	13	14
Property taxes	20	19	13	12	13	12
Other	--	5	--	3	--	3
Total deferred tax liabilities	<u>884</u>	<u>598</u>	<u>717</u>	<u>314</u>	<u>720</u>	<u>318</u>
Deferred tax assets:						
Postretirement benefits	173	78	357	48	359	48
Investment tax credits	18	20	21	23	21	23
Compensation-related items	14	14	49	45	49	46
State income taxes	22	21	17	19	16	19
Other accruals not yet deductible	37	27	74	99	75	93
Hedging transaction	--	--	16	--	16	--
Other	17	7	20	11	11	5
Total deferred tax assets	<u>281</u>	<u>167</u>	<u>554</u>	<u>245</u>	<u>547</u>	<u>234</u>
Net deferred income tax liability before valuation allowance	603	431	163	69	173	84
Valuation allowance	8	8	--	--	--	--
Net deferred income tax liability	<u>\$ 611</u>	<u>\$ 439</u>	<u>\$ 163</u>	<u>\$ 69</u>	<u>\$ 173</u>	<u>\$ 84</u>

The net deferred income tax liabilities are recorded on the Consolidated Balance Sheets at December 31 as follows:

NET DEFERRED INCOME TAX LIABILITY								
<i>(Dollars in millions)</i>								
	Sempra Energy Consolidated		SDG&E		PE		SoCalGas	
	2008	2007	2008	2007	2008	2007	2008	2007
Current (asset) liability	\$ (31)	\$ (247)	\$ (17)	\$ (67)	\$ 6	\$ (33)	\$ 6	\$ (33)
Noncurrent liability	946	531	628	506	157	102	167	117
Total	\$ 915	\$ 284	\$ 611	\$ 439	\$ 163	\$ 69	\$ 173	\$ 84

At December 31, 2008, foreign subsidiaries had \$318 million in unused net operating losses available to reduce Sempra Energy's future income taxes, primarily in Mexico. Significant amounts of these losses become unavailable to reduce future income taxes beginning in 2017 as our ability to apply them to future earnings expires. Financial statement benefits were recorded on all but \$54 million of these losses, primarily by offsetting them against deferred tax liabilities with the same expiration pattern and country of jurisdiction. No benefits were recorded on the \$54 million because they were incurred in jurisdictions where utilization is sufficiently in doubt. In 2008, the decrease in valuation allowance compared to 2007 was primarily due to a reduction in state net operating loss carryovers.

At December 31, 2008, Sempra Energy had not provided for U.S. income taxes on \$1 billion of foreign subsidiaries' undistributed earnings since they are expected to be reinvested indefinitely outside the United States. It is not possible to predict the amount of U.S. income taxes that might be payable if these earnings were eventually repatriated.

Sempra Commodities recorded synthetic fuels tax credits of \$32 million in 2007.

Following is a summary of unrecognized tax benefits at December 31, 2008:

SUMMARY OF UNRECOGNIZED TAX BENEFITS			
<i>(Dollars in millions)</i>			
	Sempra Energy Consolidated	SDG&E	PE/ SoCalGas
Total	\$ 104	\$ 18	\$ 19
Of the total, amounts related to tax positions that, if recognized, in future years, would:			
decrease the effective tax rate	\$ 64	\$ 17	\$ --
increase the effective tax rate	\$ 17	\$ 17	\$ --

Following is a reconciliation of the unrecognized tax benefits from January 1, 2008 to December 31, 2008:

RECONCILIATION OF UNRECOGNIZED TAX BENEFITS			
<i>(Dollars in millions)</i>			
	Sempra Energy Consolidated	SDG&E	PE/ SoCalGas
Balance as of January 1, 2008	\$ 131	\$ 26	\$ 40
Increase in prior period tax positions	23	2	--
Decrease in prior period tax positions	(4)	--	--
Increase in current period tax positions	4	3	--
Decrease in current period tax positions	(5)	(1)	--
Settlements with taxing authorities	(38)	(12)	(21)
Expirations of statutes of limitations	(7)	--	--
Balance as of December 31, 2008	\$ 104	\$ 18	\$ 19

It is reasonably possible that within the next 12 months unrecognized tax benefits could decrease due to the following:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated		SDG&E	PE/ SoCalGas
Expiration of statutes of limitations on tax assessments	\$	(6)	\$	--
Potential resolution of audit issues with various federal, state and foreign taxing authorities		(17)		--
Impact of federal and state timing items affecting taxable income		(3)		(3)
	\$	(26)	\$	--
			\$	(6)

Effective January 1, 2007, our policy is to recognize accrued interest and penalties on accrued tax balances as components of tax expense. Prior to the adoption of FIN 48, we accrued interest expense and penalties as components of tax expense and interest income as a component of interest income. As of December 31, 2008, the following amounts were accrued:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated		SDG&E	PE/ SoCalGas
Interest expense	\$	18	\$	2
Penalties		1		--

Amounts accrued for interest expense and penalties associated with income taxes are included in income tax expense on the Statements of Consolidated Income and in various income tax balances on the Consolidated Balance Sheets.

INCOME TAX AUDITS

Sempra Energy is subject to U.S. federal income tax as well as to income tax of multiple state and foreign jurisdictions. We remain subject to examination by U.S. federal and major state tax jurisdictions only for years after 2001. Certain major foreign income tax returns from 1995 through the present are open to examination.

In addition, we have filed state refund claims for tax years back to 1998. The pre-2002 tax years are closed to new issues; therefore, no additional tax may be assessed by the taxing authorities for these years.

SDG&E, PE and SoCalGas are subject to U.S. federal income tax as well as income tax of state jurisdictions. They remain subject to examination by U.S. federal and state tax jurisdictions only for years after 2001.

In addition, PE has state refund claims for tax years back to 1993. The pre-2002 tax years are closed to new issues; therefore, no additional tax may be assessed by the taxing authorities for these years.

NOTE 9. EMPLOYEE BENEFIT PLANS

We account for our employee benefit plans in accordance with:

- § FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements 87, 88, 106, and 132(R)*
- § FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits - an amendment of FASB Statements No. 87, 88, and 106*
- § FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*
- § FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*
- § FASB Statement No. 87, *Employers' Accounting for Pensions*

These pronouncements require an employer to do the following:

- § recognize an asset for a plan's overfunded status or a liability for a plan's underfunded status in the statement of financial position;
- § measure a plan's assets and its obligations that determine its funded status as of the end of the fiscal year (with limited exceptions); and
- § recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Generally, those changes are reported in comprehensive income and as a separate component of shareholders' equity.

The information presented below covers the employee benefit plans of Sempra Energy and its principal subsidiaries.

Sempra Energy has funded and unfunded noncontributory defined benefit plans, including separate plans for SDG&E and SoCalGas, which together cover substantially all employees and Sempra Energy's board of directors. The plans provide defined benefits based on years of service and either final average or career salary.

Sempra Energy also has other postretirement benefit plans, including separate plans for SDG&E and SoCalGas, which together cover substantially all employees and Sempra Energy's board of directors. The life insurance plans are both contributory and noncontributory and the health-care plans are contributory. Participants' contributions are adjusted annually. Other postretirement benefits include medical benefits for retirees' spouses.

Pension and other postretirement benefits costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include:

- § discount rates
- § expected return on plan assets
- § health-care cost trend rates
- § mortality rates
- § compensation increase rates
- § payout elections (lump sum or annuity)

These assumptions are reviewed on an annual basis prior to the beginning of each year and updated when appropriate. We consider current market conditions, including interest rates, in making these assumptions. We use a December 31 measurement date for all of our plans.

In support of its Supplemental Executive Retirement and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including investments in life insurance contracts, which totaled \$401 million and \$440 million at December 31, 2008 and 2007, respectively.

PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Benefit Plan Amendments for 2007 and 2008

Effective January 1, 2009, one of Sempra Energy's pension plans, separate from the Sempra Utilities' plans, was amended to increase the cash balance benefit obligation for certain participants. This amendment resulted in an increase of \$3 million in the benefit obligation and unrecognized prior service costs as of December 31, 2008.

Effective July 1, 2008, SDG&E's other postretirement benefit plan was amended to increase the health benefits for certain union participants. This amendment resulted in a \$3 million increase at both Sempra Energy and SDG&E in the benefit obligation and unrecognized prior service costs as of December 31, 2007.

Effective January 1, 2008, the pension plans were amended to increase the death benefit for beneficiaries of vested non-union participants. This amendment resulted in a \$2 million increase in the benefit obligation and unrecognized prior service costs as of December 31, 2007 at Sempra Energy, including a \$1 million increase each at SoCalGas and SDG&E.

Effective January 1, 2008, SoCalGas' and one of Sempra Energy's other postretirement benefit plans were amended to provide a health benefit for the surviving spouses (over the age of 65) of both union and non-union participants. This amendment resulted in an \$18 million increase at both Sempra Energy and SoCalGas in the benefit obligation and unrecognized prior service costs as of December 31, 2007.

Benefit Obligations and Assets

The following three tables provide a reconciliation of the changes in the plans' projected benefit obligations and the fair value of assets during 2008 and 2007, and a statement of the funded status at December 31, 2008 and 2007:

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS				
<i>(Dollars in millions)</i>				
Sempra Energy Consolidated	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	\$ 2,791	\$ 2,885	\$ 871	\$ 952
Acquisition of EnergySouth	27	--	2	--
Service cost	71	76	24	26
Interest cost	166	164	53	54
Plan amendments	3	2	--	21
Actuarial loss (gain)	6	(90)	34	(139)
Curtailments	--	1	(5)	--
Settlements	(22)	--	--	--
Special termination benefits	--	2	--	--
Benefit payments	(184)	(249)	(48)	(46)
Federal subsidy (Medicare Part D)	--	--	2	3
Other	7	--	1	--
Net obligation at December 31	<u>2,865</u>	<u>2,791</u>	<u>934</u>	<u>871</u>
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	2,528	2,535	743	694
Acquisition of EnergySouth	36	--	4	--
Actual return on plan assets	(682)	207	(194)	47
Employer contributions	66	35	40	45
Settlements	(22)	--	--	--
Benefit payments	(184)	(249)	(48)	(46)
Other	--	--	--	3
Fair value of plan assets at December 31	<u>1,742</u>	<u>2,528</u>	<u>545</u>	<u>743</u>
Funded status at December 31	<u>\$ (1,123)</u>	<u>\$ (263)</u>	<u>\$ (389)</u>	<u>\$ (128)</u>
Net recorded liability at December 31	<u>\$ (1,123)</u>	<u>\$ (263)</u>	<u>\$ (389)</u>	<u>\$ (128)</u>

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS*(Dollars in millions)*

	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
SDG&E				
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	\$ 803	\$ 842	\$ 139	\$ 139
Service cost	22	22	5	5
Interest cost	47	47	9	8
Plan amendments	--	1	--	3
Actuarial loss (gain)	(7)	(29)	1	(10)
Transfer of liability to Sempra Energy	(2)	(5)	--	--
Settlements	(1)	--	--	--
Benefit payments	(48)	(75)	(6)	(6)
Net obligation at December 31	814	803	148	139
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	684	679	67	52
Actual return on plan assets	(191)	56	(16)	3
Employer contributions	38	27	16	15
Settlements	(1)	--	--	--
Transfer of assets to Sempra Energy	(2)	(3)	--	--
Other transfers	--	--	--	3
Benefit payments	(48)	(75)	(6)	(6)
Fair value of plan assets at December 31	480	684	61	67
Funded status at December 31	\$ (334)	\$ (119)	\$ (87)	\$ (72)
Net recorded liability at December 31	\$ (334)	\$ (119)	\$ (87)	\$ (72)

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS*(Dollars in millions)*

	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
SoCalGas				
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	\$ 1,624	\$ 1,692	\$ 694	\$ 776
Service cost	40	41	17	19
Interest cost	97	95	42	44
Plan amendments	--	1	--	18
Actuarial loss (gain)	7	(51)	33	(127)
Benefit payments	(115)	(154)	(40)	(38)
Federal subsidy (Medicare Part D)	--	--	2	2
Net obligation at December 31	1,653	1,624	748	694
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	1,657	1,672	663	630
Actual return on plan assets	(438)	137	(174)	43
Employer contributions	1	1	22	28
Transfer of assets to Sempra Energy	--	1	--	--
Benefit payments	(115)	(154)	(40)	(38)
Fair value of plan assets at December 31	1,105	1,657	471	663
Funded status at December 31	\$ (548)	\$ 33	\$ (277)	\$ (31)
Net recorded asset (liability) at December 31	\$ (548)	\$ 33	\$ (277)	\$ (31)

Net Assets and Liabilities

The assets and liabilities of the pension and other postretirement benefit plans are affected by changing market conditions as well as when actual plan experience is different than assumed. Such events result in gains and losses. Investment gains and losses are deferred and recognized in pension and postretirement benefit costs over a period of years.

Sempra Energy uses the asset smoothing method for all the assets held for its pension and other postretirement plans, except for the 20 percent in the SDG&E plans. This method develops an asset value that recognizes realized and unrealized investment gains and losses over a three-year period. This adjusted asset value, known as the market-related value of assets, is used to determine the expected return-on-assets component of net periodic cost. SoCalGas also uses the asset smoothing method.

The 10-percent corridor accounting method is used at Sempra Energy, SDG&E and SoCalGas. Under the corridor-accounting method, if, as of the beginning of a year, unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets, the excess is amortized over the average remaining service period of active participants. The asset smoothing and 10-percent corridor accounting methods help mitigate volatility of net periodic costs from year to year.

The net asset (liability) is included in the following captions on the Consolidated Balance Sheets at December 31:

<i>(Dollars in millions)</i>	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Sempra Energy Consolidated				
Noncurrent assets	\$ --	\$ 75	\$ --	\$ --
Current liabilities	(25)	(32)	--	--
Noncurrent liabilities	(1,098)	(306)	(389)	(128)
Net recorded liability	\$ (1,123)	\$ (263)	\$ (389)	\$ (128)
SDG&E				
Current liabilities	\$ (2)	\$ (1)	\$ --	\$ --
Noncurrent liabilities	(332)	(118)	(87)	(72)
Net recorded liability	\$ (334)	\$ (119)	\$ (87)	\$ (72)
SoCalGas				
Noncurrent assets	\$ --	\$ 62	\$ --	\$ --
Current liabilities	(2)	(2)	--	--
Noncurrent liabilities	(546)	(27)	(277)	(31)
Net recorded asset (liability)	\$ (548)	\$ 33	\$ (277)	\$ (31)

Amounts recorded in Accumulated Other Comprehensive Income (Loss) as of December 31, 2008 and 2007, net of tax effects and amounts recorded as regulatory assets, are as follows:

AMOUNTS IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
<i>(Dollars in millions)</i>				
	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Sempra Energy Consolidated				
Net actuarial loss	\$ (97)	\$ (70)	\$ (2)	\$ (2)
Prior service credit	1	3	1	2
Total	\$ (96)	\$ (67)	\$ (1)	\$ --
SDG&E				
Net actuarial loss	\$ (13)	\$ (16)		
Prior service credit	1	1		
Total	\$ (12)	\$ (15)		
SoCalGas				
Net actuarial loss	\$ (5)	\$ (6)		
Prior service credit	1	1		
Total	\$ (4)	\$ (5)		

The accumulated benefit obligations for defined benefit pension plans at December 31, 2008 and 2007 were as follows:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2008	2007	2008	2007	2008	2007
Accumulated benefit obligation	\$ 2,668	\$ 2,606	\$ 803	\$ 795	\$ 1,493	\$ 1,467

Sempra Energy has unfunded and funded pension plans. SDG&E and SoCalGas each have an unfunded and a funded pension plan. The following table also shows the obligations of funded pension plans with benefit obligations in excess of plan assets as of December 31:

<i>(Dollars in millions)</i>	2008	2007
Sempra Energy Consolidated		
Projected benefit obligation	\$ 2,621	\$ 774
Accumulated benefit obligation	2,449	771
Fair value of plan assets	1,742	684
SDG&E		
Projected benefit obligation	\$ 787	\$ 774
Accumulated benefit obligation	780	771
Fair value of plan assets	480	684
SoCalGas		
Projected benefit obligation	\$ 1,623	\$ --
Accumulated benefit obligation	1,466	--
Fair value of plan assets	1,105	--

Net Periodic Benefit Cost, 2006-2008

The following three tables provide the components of net periodic benefit cost and amounts recognized in other comprehensive income for the years ended December 31:

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME						
<i>(Dollars in millions)</i>						
Sempra Energy Consolidated	Pension Benefits			Other Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Net Periodic Benefit Cost						
Service cost	\$ 71	\$ 76	\$ 73	\$ 24	\$ 26	\$ 24
Interest cost	166	164	158	53	54	45
Expected return on assets	(161)	(158)	(149)	(48)	(44)	(40)
Amortization of:						
Prior service cost (credit)	4	5	10	(1)	(3)	(3)
Actuarial loss	8	8	18	--	6	3
Regulatory adjustment	(22)	(34)	(38)	7	7	4
Special termination benefit charge	--	1	--	--	--	--
Curtailment charge	--	6	--	(3)	--	--
Settlement charge	8	--	--	--	--	--
Total net periodic benefit cost	74	68	72	32	46	33
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net loss (gain)	54	(12)	--	1	(2)	--
Prior service cost (credit)	3	(4)	--	--	--	--
Amortization of prior service credit	--	--	--	1	1	--
Amortization of actuarial loss	(8)	(8)	--	--	--	--
Total recognized in other comprehensive income	49	(24)	--	2	(1)	--
Total recognized in net periodic benefit cost and other comprehensive income	\$ 123	\$ 44	\$ 72	\$ 34	\$ 45	\$ 33

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME
(Dollars in millions)

SDG&E	Other					
	Pension Benefits			Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Net Periodic Benefit Cost						
Service cost	\$ 22	\$ 22	\$ 12	\$ 5	\$ 5	\$ 5
Interest cost	47	47	45	9	8	7
Expected return on assets	(46)	(45)	(41)	(4)	(3)	(2)
Amortization of:						
Prior service cost	1	2	2	3	3	3
Actuarial loss	2	2	6	--	--	--
Regulatory adjustment	14	2	8	2	2	(1)
Settlement charge	2	--	--	--	--	--
Total net periodic benefit cost	42	30	32	15	15	12
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net gain	(4)	(6)	--	--	--	--
Amortization of actuarial loss	(2)	(2)	--	--	--	--
Total recognized in other comprehensive income	(6)	(8)	--	--	--	--
Total recognized in net periodic benefit cost and other comprehensive income	\$ 36	\$ 22	\$ 32	\$ 15	\$ 15	\$ 12

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME
(Dollars in millions)

SoCalGas	Other					
	Pension Benefits			Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Net Periodic Benefit Cost						
Service cost	\$ 40	\$ 41	\$ 40	\$ 17	\$ 19	\$ 17
Interest cost	97	96	95	42	44	36
Expected return on assets	(103)	(102)	(98)	(43)	(40)	(37)
Amortization of:						
Prior service cost (credit)	2	2	7	(4)	(6)	(6)
Actuarial loss	1	1	5	--	6	3
Regulatory adjustment	(36)	(36)	(46)	5	5	5
Total net periodic benefit cost	1	2	3	17	28	18
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net gain	(1)	--	--	--	--	--
Amortization of actuarial loss	(1)	(1)	--	--	--	--
Total recognized in other comprehensive income	(2)	(1)	--	--	--	--
Total recognized in net periodic benefit cost and other comprehensive income	\$ (1)	\$ 1	\$ 3	\$ 17	\$ 28	\$ 18

The estimated net loss and prior service credit for the pension plans that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in 2009 are as follows:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated	SDG&E	SoCalGas
Net loss	\$ 8	\$ 2	\$ 1
Prior service credit	--	--	--

The estimated prior service credit for the other postretirement benefit plans that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in 2009 is \$1 million at Sempra Energy.

Medicare Prescription Drug, Improvement and Modernization Act of 2003

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 establishes a prescription drug benefit under Medicare (Medicare Part D) and a tax-exempt federal subsidy to sponsors of retiree health-care benefit plans that provide a benefit that actuarially is at least equivalent to Medicare Part D. We determined that benefits provided to certain participants actuarially will be at least equivalent to Medicare Part D. Thus, we are entitled to a tax-exempt subsidy that reduced our accumulated postretirement benefit obligation under our plans at January 1, 2008 and reduced the net periodic cost for 2008 by the following amounts:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated	SDG&E	SoCalGas
Accumulated postretirement benefit obligation reduction	\$ 92	\$ 20	\$ 67
Net periodic benefit cost reduction	8	2	5

Assumptions for Pension and Other Postretirement Benefit Plans

Benefit Obligation and Net Periodic Benefit Cost

We develop the discount rate assumptions based on the results of a third party modeling tool that matches each plan's expected future benefit payments to a bond yield curve to determine their present value. We then calculate a single equivalent discount rate that produces the same present value. The modeling tool uses an actual portfolio of 500 to 600 non-callable bonds with a Moody's Aa rating with an outstanding value of at least \$50 million to develop the bond yield curve. This reflects over \$300 billion in outstanding bonds with approximately 50 issues having maturities in excess of 20 years.

The expected long-term rate of return on plan assets is derived from historical returns for broad asset classes consistent with expectations from a variety of sources.

The significant assumptions affecting benefit obligation and net periodic benefit cost are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATION AS OF DECEMBER 31:				
Discount rate	6.00%	6.10%	6.10%	6.20%
Rate of compensation increase	4.50%	4.50%	4.00%	4.00%
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COSTS FOR YEARS ENDED DECEMBER 31:				
Sempra Energy Consolidated				
Discount rate	6.10%	5.75%	6.20%	5.85%
Expected return on plan assets	7.00%	7.00%	6.88%	6.86%
Rate of compensation increase	(1)	(1)	(2)	(2)
SDG&E				
Discount rate	6.10%	5.75%	6.20%	5.85%
Expected return on plan assets	7.00%	7.00%	5.89%	5.50%
Rate of compensation increase	(3)	(3)	N/A	N/A
SoCalGas				
Discount rate	6.10%	5.75%	6.20%	5.85%
Expected return on plan assets	7.00%	7.00%	7.00%	7.00%
Rate of compensation increase	(4)	(4)	(5)	(5)
(1)	4.50% for the non-qualified pension plans and 4.00% for the qualified pension plan for SoCalGas' union participants. An age-based formula is used for all the other qualified pension plans' participants.			
(2)	4.00% for the life insurance benefits for SoCalGas' unions. There are no compensation-based benefits for all the other postretirement benefit plans.			
(3)	4.50% for the non-qualified pension plan. An age-based formula is used for the qualified pension plan.			
(4)	4.50% for the non-qualified pension plan at SoCalGas and 4.00% for the qualified pension plan union participants. An age-based formula is used for the other qualified pension plan's participants.			
(5)	4.00% for the life insurance benefits for SoCalGas' unions. There are no compensation-based benefits for all other postretirement benefit plans.			

Health-Care Cost Trend Rates

Assumed health-care cost trend rates have a significant effect on the amounts that we report for the health-care plan costs. Following are the health-care cost trend rates applicable to our postretirement benefit plans:

	2008	2007
ASSUMED HEALTH-CARE COST TREND RATES AT DECEMBER 31:		
Health-care cost trend rate*	9.44 %	9.48 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	5.50 %	5.50 %
Year that the rate reaches the ultimate trend	2014 and 2016**	2014 and 2016**
*	This is the weighted average of the increases for all of our health plans. The rate for these plans ranged from 8.50% to 10.00% in 2008 and 2007.	
**	The ultimate trend rate is reached in 2014 for HMOs and 2016 for Anthem Blue Cross Plans.	

A one-percent change in assumed health-care cost trend rates would have the following effects:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated		SDG&E		SoCalGas	
	1% Increase	1% Decrease	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health-care benefit cost	\$ 9	\$ (7)	\$ --	\$ --	\$ 9	\$ (7)
Effect on the health-care component of the accumulated other postretirement benefit obligation	\$ 95	\$ (77)	\$ 5	\$ (4)	\$ 89	\$ (71)

Pension Trust Investment Strategies

Investment Strategy for Sempra Energy's Pension Trust

Sempra Energy's pension trust includes the pension and other postretirement benefit plans of the Sempra Utilities, except for those other postretirement plans separately described below. The asset allocation for Sempra Energy's pension trust at December 31, 2008 and 2007 and the target allocation for 2009 by asset categories are as follows:

Asset Category	Target Allocation	Percentage of Plan Assets at December 31,	
	2009	2008	2007
U.S. Equity	45 %	42 %	45 %
Foreign Equity	25	22	25
Fixed Income	30	36	30
Total	100 %	100 %	100 %

Sempra Energy's investment strategy is to stay fully invested to its strategic asset allocation. The equity portfolio is balanced to maintain risk characteristics similar to the Morgan Stanley Capital International (MSCI) 2500 index with respect to industry, sector and market capitalization exposures. The foreign equity portfolios are managed to track the MSCI Europe, Pacific Rim and Emerging Markets indices. Bond portfolios are managed with respect to the Lehman Aggregate Bond Index and Lehman Long Government Credit Bond Index. Other than index weight, the trust does not invest in securities of Sempra Energy.

Investment Strategy for SoCalGas' Other Postretirement Benefit Plans

The asset allocation for SoCalGas' other postretirement benefit plans at December 31, 2008 and 2007 and the target allocation for 2009 by asset categories are as follows:

Asset Category	Target Allocation	Percentage of Plan Assets at December 31,	
	2009	2008	2007
U.S. Equity	70 %	61 %	75 %
Fixed Income	30	39	25
Total	100 %	100 %	100 %

SoCalGas' other postretirement benefit plans are funded by cash contributions from SoCalGas and the retirees. The asset allocation is designed to match the long-term growth of the plans' liabilities. These plans are managed using index funds.

Investment Strategy for SDG&E's Postretirement Health Plans

SDG&E's postretirement health plans that are not included in the pension trust (shown above) pay premiums to health maintenance organization and point-of-service plans from company and participant contributions. SDG&E's investment strategy is to maintain a diversified portfolio of equities and tax-exempt California municipal bonds.

The asset allocation for SDG&E's postretirement health plans at December 31, 2008 and 2007 and the target allocation for 2009 by asset categories are as follows:

Asset Category	Target Allocation	Percentage of Plan Assets at December 31,	
	2009	2008	2007
U.S. Equity	25 %	28 %	25 %
Foreign Equity	5	4	5
Fixed Income	70	68	70
Total	100 %	100 %	100 %

Future Payments

We expect to contribute the following amounts to our pension and other postretirement benefit plans in 2009:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
Pension plans	\$ 165	\$ 60	\$ 74
Other postretirement benefit plans	46	17	27

The following two tables show the total benefits we expect to pay for the next 10 years to current employees and retirees from the plans or from company assets.

(Dollars in millions)	Sempra Energy Consolidated		SDG&E		SoCalGas	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
2009	\$ 227	\$ 47	\$ 63	\$ 7	\$ 125	\$ 38
2010	264	51	77	8	154	40
2011	302	55	86	9	171	43
2012	294	59	81	10	167	45
2013	291	63	82	12	175	48
2014-2018	1,430	377	397	72	853	287

The expected future Medicare Part D subsidy payments are as follows:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
2009	\$ 3	\$ --	\$ 2
2010	3	--	2
2011	3	--	3
2012	4	1	3
2013	4	1	3
2014-2018	25	5	19

SAVINGS PLANS

Sempra Energy offers trustee savings plans to all employees. Participation in the plans is immediate for salary deferrals for all employees except for the union employees at SoCalGas, who are eligible upon completion of one year of service. Subject to plan provisions, employees may contribute from one percent to 25 percent of their regular earnings when they begin employment. After one year of each employee's completed service, Sempra Energy makes matching contributions. Employer contribution amounts and methodology vary by plan, but generally the contributions are equal to 50 percent of the first 6 percent of eligible base salary contributed by employees and, if certain company goals are met, an additional amount related to incentive compensation payments.

Employer contributions are initially invested in Sempra Energy common stock but the employee may transfer the contribution to other investments. Employee contributions are invested in Sempra Energy stock, mutual funds or institutional trusts (the same investments to which employees may direct the employer contributions), which the employee selects. In Sempra Energy plans, employee contributions may also be invested in guaranteed investment contracts. Employer contributions for the Sempra Energy and SoCalGas plans are partially funded by the ESOP referred to below.

Contributions to the savings plans were as follows:

<i>(Dollars in millions)</i>	2008	2007	2006
Sempra Energy Consolidated	\$ 32	\$ 31	\$ 31
SDG&E	13	12	11
SoCalGas	12	12	11

The market value of Sempra Energy common stock held by the savings plans was \$700 million and \$997 million at December 31, 2008 and 2007, respectively. Sempra Commodities also operated defined contribution plans outside of the United States. The contributions made by Sempra Energy to such plans were \$1 million in 2008 (before the formation of RBS Sempra Commodities) and \$4 million in each of 2007 and 2006.

EMPLOYEE STOCK OWNERSHIP PLAN

All contributions to the ESOP Trust (described in Note 6) are made by Sempra Energy; there are no contributions made by the participants. As Sempra Energy makes contributions, the ESOP debt service is paid and shares are released in proportion to the total expected debt service. We charge compensation expense and credit equity for the market value of the released shares. Dividends on unallocated shares are used to pay debt service and are applied against the liability. The shares held by the Trust are unallocated and consist of 1.2 million shares of Sempra Energy common stock with a fair value of \$50 million at December 31, 2008, and 1.5 million shares with a fair value of \$92 million at December 31, 2007.

NOTE 10. SHARE-BASED COMPENSATION

SEMPRA ENERGY EQUITY COMPENSATION PLANS

Sempra Energy has share-based compensation plans intended to align employee and shareholder objectives related to the long-term growth of Sempra Energy. The plans permit a wide variety of share-based awards, including:

§ non-qualified stock options	§ stock appreciation rights
§ incentive stock options	§ performance awards
§ restricted stock	§ stock payments
§ restricted stock units	§ dividend equivalents

Eligible Sempra Utilities employees participate in Sempra Energy's share-based compensation plans as a component of their compensation package.

At December 31, 2008, Sempra Energy had the following types of equity awards outstanding:

§ *Non-Qualified Stock Options*: Options have an exercise price equal to the market price of the common stock at the date of grant, are service-based, become exercisable over a four-year period, and expire 10 years from the date of grant. Vesting and/or the ability to exercise may be accelerated upon a change in control, in accordance with severance pay agreements or upon eligibility for retirement. Options are subject to forfeiture or earlier expiration when an employee terminates employment.

§ *Restricted Stock*: Substantially all restricted stock vests at the end of a four-year period based on Sempra Energy's total return to shareholders relative to that of market indices. Vesting is subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control, in accordance with severance pay agreements or upon eligibility for retirement. Holders of restricted stock have full voting rights. They also have full dividend rights; however, dividends paid on restricted stock held by officers are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock to which the dividends relate.

§ *Restricted Stock Units*: Restricted stock units vest at the end of a four-year period based on Sempra Energy's total return to shareholders relative to that of market indices. If Sempra Energy's total return to shareholders exceeds the target levels designated in the 2008 Long Term Incentive Plan, up to an additional 50 percent of the number of granted restricted stock units may be issued. If Sempra Energy's total return to shareholders is below the target levels, shares are subject to partial vesting on a pro rata basis. Vesting is subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control, in accordance with severance pay agreements or upon eligibility for retirement. Dividend equivalents on restricted stock units are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock units to which the dividends relate.

The Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals (the Plan) authorizes the issuance of up to 302,478 shares of Sempra Energy common stock. In connection with the acquisition of EnergySouth in October 2008, we adopted the Plan to utilize the shares remaining available for future awards under the 2008 Incentive Plan of EnergySouth, Inc. (the Prior Plan). All awards outstanding under the Prior Plan at the time of the acquisition were cancelled, and the holders were paid the merger consideration in accordance with the terms of the merger agreement. The Plan provides for the grant of substantially the same types of share-based awards (other than incentive stock options) that are available under the Sempra Energy 2008 Long Term Incentive Plan.

SHARE-BASED AWARDS AND COMPENSATION EXPENSE

Sempra Energy accounts for share-based awards in accordance with SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). SFAS 123 requires that we measure and recognize compensation expense for all share-based payment awards made to our employees and directors based on estimated fair values. We adopted the provisions of SFAS 123(R) on January 1, 2006, using the modified prospective transition method. In accordance with this transition method, Sempra Energy's consolidated financial statements for prior periods were not restated to reflect the impact of SFAS 123(R). Under the modified prospective transition method, share-based compensation expense for 2006 includes compensation expense for all share-based compensation awards granted prior to, but for which the requisite service had not yet been performed as of January 1, 2006, based on the fair value estimated in accordance with the original provisions of SFAS 123, *Accounting for Stock-Based Compensation* (SFAS 123).

Share-based compensation expense for all share-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). We recognize compensation costs net of an estimated forfeiture rate (based on historical experience) and recognize the compensation costs for non-qualified stock options and restricted shares on a straight-line basis over the requisite service period of the award, which is generally four years. However, in the year that an employee becomes eligible for retirement, the remaining expense related to the employee's awards is recognized immediately. We account for these awards as equity awards in accordance with SFAS 123(R).

As of December 31, 2008, 7,296,239 shares were authorized and available for future grants of share-based awards. Company practice is to satisfy share-based awards by issuing new shares rather than by open-market purchases.

Total share-based compensation expense for all of Sempra Energy's share-based awards was comprised as follows:

SHARE-BASED COMPENSATION EXPENSE – SEMPRA ENERGY CONSOLIDATED			
<i>(Dollars in millions, except per share amounts)</i>			
	Years ended December 31,		
	2008	2007	2006
Share-based compensation expense, before income taxes	\$ 44	\$ 45	\$ 42
Income tax benefits	(17)	(17)	(16)
Share-based compensation expense, net of income taxes	<u>\$ 27</u>	<u>\$ 28</u>	<u>\$ 26</u>
Net share-based compensation expense, per common share			
Basic	\$ 0.11	\$ 0.11	\$ 0.10
Diluted	\$ 0.11	\$ 0.11	\$ 0.10

Sempra Energy's capitalized compensation cost was \$5 million in 2008 and \$3 million in each of 2007 and 2006.

The tax benefits resulting from tax deductions in excess of the tax benefit related to compensation cost recognized for stock option exercises are classified as financing cash flows.

Sempra Energy subsidiaries record an expense for the plans to the extent that subsidiary employees participate in the plans and/or the subsidiaries are allocated a portion of the Sempra Energy plans' corporate staff costs. Expenses and capitalized compensation cost recorded by SDG&E and SoCalGas were as follows:

SHARE-BASED COMPENSATION – SDG&E AND SOCIALGAS			
<i>(Dollars in millions)</i>			
	Years ended December 31,		
	2008	2007	2006
SDG&E			
Compensation expense	\$ 8	\$ 6	\$ 7
Capitalized compensation cost	3	2	2
SoCalGas			
Compensation expense	\$ 9	\$ 8	\$ 10
Capitalized compensation cost	2	1	1

SEMPRA ENERGY NON-QUALIFIED STOCK OPTIONS

We use a Black-Scholes option-pricing model (Black-Scholes model) to estimate the fair value of each non-qualified stock option grant. The use of a valuation model requires us to make certain assumptions about selected model inputs. Expected volatility is calculated based on the historical volatility of Sempra Energy's stock price. We based the average expected life for options issued in 2008 on the contractual term of the option and expected employee exercise and post-termination behavior. We developed the average expected life for options issued in prior years using the simplified approach in accordance with Securities and Exchange Commission Staff Accounting Bulletin 107 (SAB 107).

The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of the grant. The weighted-average per-share fair values for options granted were \$12.53 in 2008, \$13.82 in 2007 and \$10.75 in 2006. To calculate these fair values, we use the Black-Scholes model with the following weighted-average assumptions:

	2008	2007	2006
Stock price volatility	19%	21%	23%
Risk-free rate of return	3.6%	4.7%	4.3%
Annual dividend yield	2.0%	2.1%	2.5%
Expected life	6.4 Years	6.2 Years	6.2 Years

The following table shows a summary of the non-qualified stock options as of December 31, 2008 and activity for the year then ended:

NON-QUALIFIED STOCK OPTIONS				
	Shares under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2007	6,788,214	\$ 32.61		
Granted	783,500	\$ 61.10		
Exercised	(683,858)	\$ 25.97		\$ 21
Forfeited/canceled	(35,600)	\$ 54.54		
Outstanding at December 31, 2008	<u>6,852,256</u>	\$ 36.42	5.2	\$ 70
Vested or expected to vest,				
at December 31, 2008	6,805,507	\$ 36.29	5.2	\$ 70
Exercisable at December 31, 2008	5,042,381	\$ 29.92	4.2	\$ 69

The aggregate intrinsic value at December 31, 2008 is the total of the difference between Sempra Energy's closing stock price and the exercise price for all in-the-money options. The total fair value of shares vested in the last three years was

§ \$8 million in 2008

§ \$7 million in 2007

§ \$12 million in 2006

The \$7 million of total compensation cost related to nonvested stock options not yet recognized as of December 31, 2008 is expected to be recognized over a weighted-average period of 2.3 years.

We received cash from option exercises during 2008 totaling \$18 million. The realized tax benefits for the share-based payment award deductions, in addition to the \$17 million benefit shown above, totaled \$10 million for 2008.

SEMPRA ENERGY RESTRICTED STOCK AWARDS AND UNITS

We use a Monte-Carlo simulation model to estimate the fair value of the restricted stock awards and units. Our determination of fair value is affected by the volatility of the stock price and the dividend yields for Sempra Energy and its peer group companies. The valuation also is affected by the risk-free rates of return, and a number of other variables. Below are key assumptions for Sempra Energy:

	2008	2007	2006
Risk-free rate of return	3.1%	4.6%	4.3%
Annual dividend yield	2.3	2.2	2.6
Stock price volatility	18	19	24

Restricted Stock Awards

A summary of Sempra Energy's restricted stock awards as of December 31, 2008 and the activity during the year is presented below.

RESTRICTED STOCK AWARDS		
	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2007	2,758,797	\$ 35.79
Granted	4,002	\$ 43.17
Vested	(1,005,311)	\$ 38.77
Forfeited	(46,500)	\$ 34.81
Nonvested at December 31, 2008	1,710,988	\$ 34.06

The \$11 million of total compensation cost related to nonvested restricted stock awards not yet recognized as of December 31, 2008 is expected to be recognized over a weighted-average period of 1.7 years. The total fair value of shares vested in the last three years was

§ \$39 million in 2008

§ \$37 million in 2007

§ \$68 million in 2006

Restricted Stock Units

A summary of Sempra Energy's restricted stock units as of December 31, 2008 and the activity during the year is presented below.

RESTRICTED STOCK UNITS		
	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2007	5,400	\$ 62.26
Granted	643,250	\$ 52.80
Vested	--	--
Forfeited	(22,300)	\$ 52.87
Nonvested at December 31, 2008*	626,350	\$ 52.70

* Additional units may be granted if Sempra Energy exceeds the target shareholder return requirements designated in the 2008 Long Term Incentive Plan.

The \$13 million of total compensation cost related to nonvested restricted stock units not yet recognized as of December 31, 2008 is expected to be recognized over a weighted-average period of 3.0 years.

NOTE 11. FINANCIAL INSTRUMENTS

We periodically use interest-rate swap agreements and commodity derivative instruments to moderate our exposure to commodity price changes and interest-rate changes and to lower our overall cost of borrowing.

FAIR VALUE HEDGES

Fair value interest-rate swap hedges at December 31, 2008 and 2007 were:

<i>(Dollars in millions)</i>	December 31, 2008			December 31, 2007		
	Notional Debt	Asset	Maturities	Notional Debt	Asset	Maturities
Sempra Energy Consolidated	\$ 450	\$ 24	2010-2011	\$ 450	\$ 11	2010-2011
SoCalGas	150	9	2011	150	2	2011

There has been no hedge ineffectiveness on these swaps. We recorded the market value adjustments since inception of the interest-rate swap hedges as an increase in Fixed-Price Contracts and Other Derivatives (in noncurrent assets as Sundry or in noncurrent liabilities) and a corresponding increase or decrease in Long-Term Debt without affecting net income or other comprehensive income.

Prior to the sale of the commodities-marketing businesses into RBS Sempra Commodities in April 2008, commodity fair value hedges were associated with Sempra Commodities and were recorded as trading instruments.

CASH FLOW HEDGES

Cash flow interest-rate swap hedges at December 31, 2008 and 2007 were:

<i>(Dollars in millions)</i>	December 31, 2008		December 31, 2007	
	Notional Debt	Maturities	Notional Debt	Maturities
Sempra Energy Consolidated*	\$ 176	2009	\$ 434	2009-2038
SDG&E*	176	2009	251	2009
SoCalGas	--	--	183	2038
Otay Mesa VIE	--	--	73 - 377	2019

* Excludes Otay Mesa VIE, which de-designated all cash flow interest-rate hedges in 2008.

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

In the third quarter of 2005, Sempra Energy entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of \$450 million for facilities related to Sempra LNG's Energía Costa Azul project. The swaps expire in 2027. During the second quarter of 2007, we revised our borrowing plans in anticipation of receiving net cash proceeds in connection with the sale of the commodities-marketing businesses. Accordingly, as of June 30, 2007, we reclassified the cash flow hedge gain of \$30 million pretax from Accumulated Other Comprehensive Income (Loss) to Other Income (Expense), Net in the Statements of Consolidated Income. In August 2007, we entered into interest-rate swaps with a collective notional value of \$450 million to economically offset the original swap instruments.

The following table provides the balances in Accumulated Other Comprehensive Income (Loss), net of income tax, related to all cash flow hedges:

(Dollars in millions)	December 31,	
	2008	2007
Sempra Energy Consolidated	\$ (40)*	\$ (24)
SDG&E	(1)	(1)
SoCalGas	(24)	1

* Sempra Energy Consolidated includes accumulated other comprehensive losses of \$6 million as part of its equity method investment in RBS Sempra Commodities.

Sempra Energy expects that losses of \$7 million, which are net of income tax benefit, that are currently recorded in Accumulated Other Comprehensive Income (Loss) related to these cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings. This excludes amounts related to RBS Sempra Commodities. In connection with the sale of the commodities-marketing businesses, we recognized losses of \$35 million, net of income tax, of Sempra Commodities' cash flow hedge balance during 2008.

SDG&E and SoCalGas expect that losses of \$1 million and \$3 million, respectively, which are net of income tax benefit, that are currently recorded in Accumulated Other Comprehensive Income (Loss) related to these cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings.

HEDGE INEFFECTIVENESS

Following is a summary of the hedge ineffectiveness gains (losses) for Sempra Energy. Information related to the Sempra Utilities is noted separately within the table:

(Dollars in millions)	Years ended December 31,		
	2008	2007	2006
Commodity hedges*:			
Cash flow hedges	\$ (3)	\$ 3	\$ 24
Fair value hedges	(9)	29	86
Time value exclusions from hedge assessment	--	192	179
Total unrealized gains (losses)	(12)	224	289
Interest-rate hedges**:			
Cash flow hedges held by SDG&E***	(1)	(3)	(1)
Total unrealized losses	(1)	(3)	(1)
Total ineffectiveness gains (losses)	\$ (13)	\$ 221	\$ 288

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

** For interest-rate swap instruments, all companies record ineffectiveness gains (losses) in Other Income (Expense), Net on the Statements of Consolidated Income.

*** The 2008 and 2007 losses include \$(1) million and a negligible amount, respectively, associated with Otay Mesa VIE.

For commodity derivative instruments designated as fair value hedges,

§ the ineffectiveness gains relate to hedges of commodity inventory and include gains that represent the time value of money, which is excluded for hedge assessment purposes.

For commodity derivative instruments designated as cash flow hedges,

§ the ineffectiveness amounts relate to hedges of natural gas purchases and sales related to transportation and storage capacity arrangements.

These commodity derivative instruments were held by our commodities-marketing businesses. For 2006, the ineffectiveness in commodity derivative instruments also relates to the phase-out of synthetic fuels income tax credits.

In 2007 and 2006, we also reclassified \$2 million and \$39 million, respectively, of losses from Accumulated Other Comprehensive Income (Loss) due to the expectation that these losses would not be recovered. The gains and losses are included in Revenues from Sempra Global and Parent for Sempra Energy on the Statements of Consolidated Income. These commodity derivative instruments were held by our commodities-marketing businesses.

SEMPRA UTILITIES

At the Sempra Utilities, company policy and regulatory requirements impose limits on the use of derivative instruments. These instruments enable the companies to estimate with greater certainty the effective prices to be received by the companies and the prices to be charged to their customers. SDG&E records realized gains or losses on derivative instruments associated with transactions for electric energy contracts in Cost of Electric Fuel and Purchased Power on the Statements of Consolidated Income. SDG&E and SoCalGas record realized gains and losses on derivative instruments associated with transactions for natural gas contracts in Cost of Natural Gas on the Statements of Consolidated Income. On the Consolidated Balance Sheets, the Sempra Utilities record regulatory assets and liabilities related to unrealized gains and losses from these derivative instruments to the extent derivative gains and losses associated with these derivative instruments will be payable or recoverable in future rates.

SEMPRA COMMODITIES

Prior to the formation of RBS Sempra Commodities in 2008, the carrying values of trading assets and trading liabilities, primarily at Sempra Commodities, were as follows:

<i>(Dollars in millions)</i>	December 31, 2007*
TRADING ASSETS	
Trading-related receivables and deposits, net:	
Due from trading counterparties	\$ 2,489
Due from commodity clearing organizations and clearing brokers	230
	<u>2,719</u>
Derivative trading instruments:	
Unrealized gains on swaps and forwards	1,067
OTC commodity options purchased	1,103
	<u>2,170</u>
Commodities owned	2,231
Total trading assets	<u>\$ 7,120</u>
TRADING LIABILITIES	
Trading-related payables	\$ 2,265
Derivative trading instruments sold, not yet purchased:	
Unrealized losses on swaps and forwards	950
OTC commodity options written	722
	<u>1,672</u>
Commodities sold with agreement to repurchase	500
Total trading liabilities	<u>\$ 4,437</u>

* Amounts have been reclassified to reflect the adoption of FASB Staff Position FIN 39-1.

The following table summarizes the counterparty credit quality and exposure for Sempra Commodities, expressed in terms of net replacement value. These exposures are net of collateral in the form of customer margin and/or letters of credit of \$1.6 billion at December 31, 2007:

COUNTERPARTY CREDIT QUALITY*	
<i>(Dollars in millions)</i>	
	December 31, 2007
Commodity exchanges	\$ 230
AAA	13
AA	478
A	419
BBB	504
Below investment grade or not rated	959
Total	<u>\$ 2,603</u>

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

We provide additional disclosure of credit risk and counterparty credit quality with RBS Sempra Commodities in Notes 1 and 6.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of certain of our financial instruments (cash, temporary investments, accounts and notes receivable, dividends and accounts payable, short-term debt and customer deposits) approximate their carrying amounts. The following table provides the carrying amounts and fair values of the remaining financial instruments at December 31:

<i>(Dollars in millions)</i>	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Sempra Energy Consolidated				
Investments in affordable housing partnerships ¹	\$ 43	\$ 63	\$ 61	\$ 84
Total long-term debt ²	6,962	7,013	4,566	4,620
Due to unconsolidated affiliates	102	101	162	170
Preferred stock of subsidiaries ³	179	149	193	173
SDG&E				
Total long-term debt ⁴	\$ 2,146	\$ 2,073	\$ 1,960	\$ 1,975
Preferred stock	79	71	93	90
PE/SoCalGas				
Total long-term debt ⁴	\$ 1,372	\$ 1,333	\$ 1,115	\$ 1,100
PE:				
Preferred stock	\$ 80	\$ 59	\$ 80	\$ 66
Preferred stock of subsidiary	20	19	20	17
	<u>\$ 100</u>	<u>\$ 78</u>	<u>\$ 100</u>	<u>\$ 83</u>
SoCalGas:				
Preferred stock	\$ 22	\$ 20	\$ 22	\$ 19

¹ See Note 4.

² Before reductions for unamortized discount of \$8 million and \$6 million at December 31, 2008 and 2007, respectively.

³ At December 31, 2007, \$14 million of mandatorily redeemable preferred stock of subsidiaries was included in Other Current Liabilities.

⁴ Before reductions for unamortized discount of \$2 million at both December 31, 2008 and 2007.

Sempra Energy

§ based the fair values of investments in affordable housing partnerships on the present value of estimated future cash flows, discounted at rates available for similar investments; and

§ estimated the fair values of debt incurred to acquire affordable housing partnerships based on the present value of the future cash flows, discounted at rates available for similar notes with comparable maturities.

All entities based the fair values of the long-term debt and preferred stock on their quoted market prices or quoted market prices for similar securities.

Adoption of FSP FIN 39-1

We adopted FSP FIN 39-1 effective January 1, 2008, which required retroactive application. Each Consolidated Balance Sheet reflects the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when management believes a legal right of setoff exists. As of December 31, 2008, Sempra Energy offset fair value cash collateral receivables and payables against net derivative positions of \$63 million and \$38 million, respectively. As of December 31, 2007, Sempra Energy offset fair value cash collateral receivables and payables against net derivative positions of \$177 million and \$1.1 billion, respectively. The fair value of cash collateral that was not offset in the Consolidated Balance Sheets as of December 31, 2008 and December 31, 2007 was \$28 million and \$27 million, respectively.

The following table provides the amount of fair value of cash collateral receivables that were offset against net derivative positions in the Consolidated Balance Sheets as of December 31, 2008 and December 31, 2007 at the Sempra Utilities:

<i>(Dollars in millions)</i>	December 31,	
	2008	2007
SDG&E	\$ 52	\$ 9
SoCalGas	11	--

The following table provides the amount of fair value of cash collateral that was not offset in the Consolidated Balance Sheets as of December 31, 2008 and December 31, 2007 at the Sempra Utilities:

<i>(Dollars in millions)</i>	December 31,	
	2008	2007
SDG&E	\$ 21	\$ 6
SoCalGas	7	7

Fair Value Hierarchy

We discuss the valuation techniques we use to measure fair value and the definition of the three levels of the fair value hierarchy, as defined in SFAS 157, in Note 1 under "Fair Value Measurements" and in Note 2 under "FSP FAS 157-3."

The three tables below, by level within the fair value hierarchy, set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008 and 2007. As required by SFAS 157, we classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

The fair value of commodity derivative assets and liabilities is determined in accordance with our netting policy, as discussed above under "Adoption of FSP FIN 39-1."

Determining the fair values, shown in the tables below, incorporates various factors required under SFAS 157. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of the risk of our nonperformance on our liabilities.

Our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008 and 2007 in the tables below include the following:

- § Nuclear decommissioning trusts reflect the assets of SDG&E's nuclear decommissioning trusts, excluding cash balances, as we discuss in Note 7. The trust assets are valued by a third party trustee. The trustee obtains prices from pricing services that are derived from observable data. The trustee monitors the prices supplied by pricing services by validating pricing with other sources of data.
- § Investments include marketable securities and are primarily priced based on observable interest rates for similar instruments actively trading in the marketplace.
- § Commodity and other derivative positions, which include other interest-rate management instruments, are entered into primarily as a means to manage price exposures. We use market participant assumptions to price these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable.

In the third quarter of 2007, the California Independent System Operator (ISO) began the process of allocating congestion revenue rights (CRRs) to load serving entities, including SDG&E. These instruments are included with commodity derivatives and are recorded at fair value based on annual auction prices published by the California ISO. Prior to the ISO auction conducted in November 2008, the CRRs were priced based on discounted cash flows. They are classified as Level 3 and reflected in the Sempra Energy and SDG&E tables below. Changes in the fair value of CRRs are deferred and recorded in regulatory accounts to the extent they are recoverable through rates.

RECURRING FAIR VALUE MEASURES – SEMPR ENERGY CONSOLIDATED
(Dollars in millions)

	At fair value as of December 31				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
2008*:					
Assets:					
Nuclear decommissioning trusts**	\$ 421	\$ 148	\$ --	\$ --	\$ 569
Investments	1	176	--	--	177
Commodity derivatives	55	76	27	(38)	120
Other derivatives	--	76	--	--	76
Total	\$ 477	\$ 476	\$ 27	\$ (38)	\$ 942
Liabilities:					
Commodity derivatives	\$ 63	\$ 110	\$ --	\$ (63)	\$ 110
Other derivatives	--	130	--	--	130
Total	\$ 63	\$ 240	\$ --	\$ (63)	\$ 240
2007***:					
Assets:					
Trading derivatives	\$ 201	\$ 2,943	\$ 446	\$ (1,197)	\$ 2,393
Commodity trading inventories	--	2,177	--	--	2,177
Nuclear decommissioning trusts**	551	175	--	--	726
Investments	86	6	7	--	99
Commodity derivatives	16	5	7	--	28
Other derivatives	--	40	--	--	40
Total	\$ 854	\$ 5,346	\$ 460	\$ (1,197)	\$ 5,463
Liabilities:					
Trading derivatives	\$ 200	\$ 2,116	\$ 59	\$ (302)	\$ 2,073
Commodity derivatives	--	9	--	--	9
Other derivatives	--	23	--	--	23
Total	\$ 200	\$ 2,148	\$ 59	\$ (302)	\$ 2,105

* On April 1, 2008, the commodities-marketing businesses were sold, as we discuss in Note 3.

** Excludes cash balances.

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

RECURRING FAIR VALUE MEASURES – SDG&E*(Dollars in millions)*

	At fair value as of December 31				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
2008:					
Assets:					
Commodity derivatives	\$ 21	\$ --	\$ 27	\$ --	\$ 48
Nuclear decommissioning trusts*	421	148	--	--	569
Short-term investments	--	24	--	--	24
Total	\$ 442	\$ 172	\$ 27	\$ --	\$ 641
Liabilities:					
Commodity derivatives	\$ 52	\$ 24	\$ --	\$ (52)	\$ 24
Other derivatives	--	88	--	--	88
Total	\$ 52	\$ 112	\$ --	\$ (52)	\$ 112
2007**:					
Assets:					
Commodity derivatives	\$ 9	\$ 3	\$ 7	\$ --	\$ 19
Nuclear decommissioning trusts*	551	175	--	--	726
Total	\$ 560	\$ 178	\$ 7	\$ --	\$ 745
Liabilities:					
Trading derivatives	\$ 9	\$ 8	\$ --	\$ (9)	\$ 8
Other derivatives	--	20	--	--	20
Total	\$ 9	\$ 28	\$ --	\$ (9)	\$ 28

* Excludes cash balances.

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

RECURRING FAIR VALUE MEASURES – SOCALGAS*(Dollars in millions)*

	At fair value as of December 31				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
2008:					
Assets:					
Commodity derivatives	\$ 8	\$ 3	\$ --	\$ --	\$ 11
Other derivatives	--	10	--	--	10
Total	\$ 8	\$ 13	\$ --	\$ --	\$ 21
Liabilities:					
Commodity derivatives	\$ 11	\$ --	\$ --	\$ (11)	\$ --
2007:					
Assets:					
Commodity derivatives	\$ 7	\$ 1	\$ --	\$ --	\$ 8
Other derivatives	--	5	--	--	5
Total	\$ 7	\$ 6	\$ --	\$ --	\$ 13

Trading derivatives in the Recurring Fair Value Measures – Sempra Energy Consolidated table above include OTC unrealized values related to swaps, forwards and options, as well as open, listed exchange transactions. However, exchange transactions, which are cash settled during the life of the transaction, are classified as part of Trading-Related Receivables and Deposits, Net on the Consolidated Balance Sheets. The following table provides a reconciliation of these balances as of December 31, 2007:

<i>(Dollars in millions)</i>	As of December 31, 2007	
	Assets	Liabilities
Derivative trading instruments:		
Per Consolidated Balance Sheet	\$ 2,170	\$ 1,672
Unrealized revenues for exchange contracts	223	401
Per Recurring Fair Value Measures Table	\$ 2,393	\$ 2,073

The Recurring Fair Value Measures table above does not include certain commodity trading inventories that are carried on a lower-of-cost-or-market basis as of December 31, 2007. The table does include a portion of commodity trading inventories for which fair value hedge accounting is applied. The following table shows a reconciliation of the commodities trading inventories balance as of December 31, 2007:

<i>(Dollars in millions)</i>	December 31, 2007
Commodities owned:	
Per Consolidated Balance Sheet	\$ 2,231
Less: Commodities owned, recorded at lower-of-cost-or-market	(54)
Per Recurring Fair Value Measures Table	\$ 2,177

Trading Derivatives and Commodity Trading Inventories

Trading derivatives and commodity trading inventories reflect positions held by Sempra Commodities, prior to the formation of RBS Sempra Commodities in 2008, as we discuss in Note 3. Trading derivatives include exchange-traded derivative contracts and OTC derivative contracts. Exchange-traded derivative contracts, which include futures and exchange-traded options, are generally based on unadjusted quoted prices in active markets and are classified within Level 1.

In addition, certain OTC-cleared options and swap contracts are included in Level 1, as the fair values of these items are based on unadjusted quoted prices in active markets. Some exchange-traded derivatives are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets. In such cases, these exchange-traded derivatives are classified within Level 2.

OTC derivative trading instruments include swaps, forwards, options and complex structures that are valued at fair value and may be offset with similar positions in exchange-traded markets. In certain instances, we may use models to measure the fair value of these instruments. Generally, we use a similar model to value similar instruments. Valuation models use various inputs that include quoted prices for:

- § similar assets or liabilities in active markets;
- § identical or similar assets or liabilities in markets that are not active;
- § other observable inputs for the asset or liability; and
- § market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2.

Certain OTC derivatives trade in less active markets with a lower availability of pricing information. In addition, complex or structured transactions can introduce the need for internally-developed model inputs that might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.

Level 3 Information

The following table set forth reconciliations of changes in the fair value of net trading and other derivatives classified as Level 3 in the fair value hierarchy:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated		SDG&E	
	December 31,		December 31,	
	2008	2007	2008	2007
Balance as of January 1	\$ 401	\$ 519	\$ 7	\$ --
Realized and unrealized gains (losses)	(79)	(272)	3	--
Allocated transmission instruments	17	--	17	7
Purchases and issuances	24	154	--	--
Sale of the commodities-marketing businesses	(336)	--	--	--
Balance as of December 31	<u>\$ 27</u>	<u>\$ 401</u>	<u>\$ 27</u>	<u>\$ 7</u>
Change in unrealized gains relating to instruments still held as of December 31	\$ 27	\$ 75	\$ 27	\$ 7

Transfers in and/or out of Level 3 represent existing assets or liabilities that were either:

§ previously categorized as a higher level for which the inputs to the model became unobservable; or

§ assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period.

There were no transfers in or out of Level 3 during the periods presented.

Gains and losses (realized and unrealized) for Level 3 recurring items are primarily related to the commodities-marketing businesses and are included in Revenues for Sempra Global and Parent on the Statements of Consolidated Income for the three months ended March 31, 2008 and for the year ended December 31, 2007. With the sale of these businesses on April 1, 2008, Level 3 recurring activity was substantially reduced.

NOTE 12. PREFERRED STOCK

The table below shows the details of preferred stock for SDG&E, PE and SoCalGas.

	Call/ Redemption Price	December 31,	
		2008	2007
(in millions)			
Subject to mandatory redemption:			
SDG&E:			
Without par value: \$1.7625 Series, 550,000 shares outstanding at December 31, 2007*	\$ 25.00	\$ --	\$ 14
Sempra Energy - total preferred stock of subsidiary subject to mandatory redemption		\$ --	\$ 14
Not subject to mandatory redemption:			
SDG&E:			
\$20 par value, authorized 1,375,000 shares:			
5% Series, 375,000 shares outstanding	\$ 24.00	\$ 8	\$ 8
4.5% Series, 300,000 shares outstanding	\$ 21.20	6	6
4.4% Series, 325,000 shares outstanding	\$ 21.00	7	7
4.6% Series, 373,770 shares outstanding	\$ 20.25	7	7
Without par value:			
\$1.70 Series, 1,400,000 shares outstanding	\$ 25.595	35	35
\$1.82 Series, 640,000 shares outstanding	\$ 26.00	16	16
Total preferred stock of SDG&E, not subject to mandatory redemption		79	79
Pacific Enterprises:			
Without par value, authorized 15,000,000 shares:			
\$4.75 Dividend, 200,000 shares outstanding	\$ 100.00	20	20
\$4.50 Dividend, 300,000 shares outstanding	\$ 100.00	30	30
\$4.40 Dividend, 100,000 shares outstanding	\$ 101.50	10	10
\$4.36 Dividend, 200,000 shares outstanding	\$ 101.00	20	20
\$4.75 Dividend, 253 shares outstanding	\$ 101.00	--	--
Total preferred stock of Pacific Enterprises		80	80
SoCalGas:			
\$25 par value, authorized 1,000,000 shares:			
6% Series, 79,011 shares outstanding		3	3
6% Series A, 783,032 shares outstanding		19	19
Total preferred stock of SoCalGas		22	22
Less: 50,970 shares of the 6% Series outstanding owned by Pacific Enterprises		(2)	(2)
Pacific Enterprises - total preferred stock of subsidiary		20	20
Sempra Energy - total preferred stock of subsidiaries not subject to mandatory redemption		\$ 179	\$ 179

* At December 31, 2007, \$14 million was included in Other Current Liabilities. This series was redeemed on January 15, 2008.

The following are the attributes of each company's preferred stock:

SDG&E

§ All outstanding series are callable.

§ The \$1.7625 Series had a sinking fund requirement to redeem 50,000 shares at \$25 per share in 2007 and all remaining shares in 2008. On January 15, 2007, SDG&E redeemed 100,000 shares, and on January 15, 2008, SDG&E redeemed the remaining 550,000 shares.

§ The \$20 par value preferred stock has two votes per share on matters being voted upon by shareholders of SDG&E and a liquidation value at par.

§ All outstanding series of SDG&E's preferred stock have cumulative preferences as to dividends.

§ The no-par-value preferred stock is nonvoting and has a liquidation value of \$25 per share plus any unpaid dividends.

§ SDG&E is authorized to issue 10,000,000 shares of no-par-value preferred stock (both subject to and not subject to mandatory redemption).

SDG&E is currently authorized to issue up to 25 million shares of an additional class of preference shares designated as "Series Preference Stock." The Series Preference Stock is in addition to the Cumulative Preferred Stock, Preference Stock (Cumulative) and Common Stock that SDG&E was otherwise authorized to issue, and when issued would rank junior to the Cumulative Preferred Stock and Preference Stock (Cumulative). The stock's rights, preferences and privileges would be established by the board at the time of issuance.

PACIFIC ENTERPRISES

§ Outstanding PE preferred stock is subject to redemption at PE's option at any time with at least 30 days' notice at the applicable redemption price for each series plus any unpaid dividends.

§ All outstanding series have one vote per share, cumulative preferences as to dividends, and a liquidation value of \$100 per share plus any unpaid dividends.

SOCALGAS

§ None of SoCalGas' outstanding preferred stock is callable.

§ All outstanding series have one vote per share, cumulative preferences as to dividends and liquidation values of \$25 per share plus any unpaid dividends.

SoCalGas currently is authorized to issue 5 million shares of series preferred stock and 5 million shares of preference stock, both without par value and with cumulative preferences as to dividends and with liquidation value. The preference stock would rank junior to all series of preferred stock. Other rights and privileges of the stock would be established by the board of directors at the time of issuance.

NOTE 13. SEMPRA ENERGY - SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

The following table provides the per share computations for income from continuing operations for the years ended December 31. Basic earnings per common share (EPS) is calculated by dividing earnings applicable to common stock by the weighted-average number of common shares outstanding for the year. Diluted EPS includes the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

	Years ended December 31,		
	2008	2007	2006
EARNINGS PER SHARE COMPUTATIONS			
<hr/>			
Numerator (in millions):			
Income from continuing operations	\$ 1,113	\$ 1,125	\$ 1,091
Denominator (in thousands):			
Weighted average common shares outstanding for basic EPS	247,387	259,269	256,477
Dilutive effect of stock options and restricted stock awards	3,772	4,735	4,891
Weighted average common shares outstanding for diluted EPS	251,159	264,004	261,368
Earnings per share:			
Basic	\$ 4.50	\$ 4.34	\$ 4.25
Diluted	\$ 4.43	\$ 4.26	\$ 4.17

The dilution from common stock options is based on the treasury stock method. Under this method, proceeds based on the exercise price plus unearned compensation and windfall tax benefits or tax shortfalls, as defined by SFAS 123(R), are assumed to be used to repurchase shares on the open market at the average market price for the year. The windfall tax benefits are tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation excludes options for which the exercise price on common stock was greater than the average market price during the year. We had 1,496,500 and 55,800 such stock options outstanding during 2008 and 2007, respectively. We had no options outstanding for which the exercise price on common stock was greater than the average market price during 2006.

During 2007 and 2006, we had 699,600 and 787,600 stock options outstanding, respectively, that were antidilutive because of the unearned compensation and windfall tax benefits included in the assumed proceeds under the treasury stock method. There were no such antidilutive stock options outstanding during 2008.

The dilution from unvested restricted stock awards and units is also based on the treasury stock method. Assumed proceeds equal to the unearned compensation and windfall tax benefits or tax shortfalls related to the awards, as defined by SFAS 123(R), are assumed to be used to repurchase shares on the open market at the average market price for the year. The windfall tax benefits or tax shortfalls are the difference between tax deductions we would receive upon the assumed vesting of restricted stock awards and units and the deferred income taxes we recorded related to the compensation expense on the restricted stock awards and units. We had 1,009 and 850 restricted stock awards and units outstanding that were antidilutive during 2008 and 2006, respectively. There were no such restricted stock awards in 2007.

We are authorized to issue 750,000,000 shares of no-par-value common stock. In addition, we are authorized to issue 50,000,000 shares of preferred stock having rights, preferences and privileges that would be established by the Sempra Energy board of directors at the time of issuance.

Shares of common stock held by the ESOP were 1,177,196, 1,488,046 and 1,683,766 at December 31, 2008, 2007 and 2006, respectively. These shares are unallocated and therefore excluded from the computation of EPS.

Excluding shares held by the ESOP, common stock activity consisted of the following:

COMMON STOCK ACTIVITY			
	2008	2007	2006
Common shares outstanding, January 1	261,214,009	262,005,690	257,187,943
Savings plan issuance	--	268,178	807,258
Shares released from ESOP	310,850	195,720	232,650
Stock options exercised	683,858	1,245,696	3,306,937
Restricted stock issuances	4,002	803,706	920,900
Common stock investment plan*	1,508	95,499	352,736
Shares repurchased	(18,841,287)	(3,349,771)	(706,554)
Shares forfeited and other	(48,659)	(50,709)	(96,180)
Common shares outstanding, December 31	243,324,281	261,214,009	262,005,690

* Participants in the Direct Stock Purchase Plan may reinvest dividends to purchase newly issued shares.

Our board of directors has the discretion to determine the payment and amount of future dividends.

COMMON STOCK REPURCHASE PROGRAM

On September 11, 2007, our board of directors authorized the repurchase of additional shares of our common stock provided that the amounts expended for such purposes did not exceed the greater of \$2 billion or amounts expended to purchase no more than 40 million shares. Purchases may include open-market and negotiated transactions, structured purchase arrangements, and tender offers.

In April 2008, we entered into a Collared Accelerated Share Acquisition Program under which we prepaid \$1 billion to repurchase shares of our common stock to be delivered later in 2008 in a share forward transaction. Our outstanding shares used to calculate earnings per share were reduced by the number of shares repurchased when they were delivered to us, and the \$1 billion purchase price was recorded as a reduction in shareholders' equity upon its prepayment. We received 18,416,241 shares under the program (15,407,961 shares in the second quarter and 3,008,280 shares in the fourth quarter) based on a final weighted average price of \$54.30 per share.

This share repurchase program is unrelated to share-based compensation as described in Note 10.

NOTE 14. ELECTRIC INDUSTRY REGULATION

BACKGROUND

California's legislative response to the 2000 - 2001 energy crisis resulted in the California Department of Water Resources (DWR) purchasing a substantial portion of power for California's electricity users. In 2001, the DWR entered into long-term contracts with suppliers, including Sempra Generation, to provide power for the utility procurement customers of each of the California investor-owned utilities (IOUs), including SDG&E. The California Public Utilities Commission (CPUC) allocates the power and its administrative responsibility, including collection of power contract costs from utility customers, among the IOUs. Effective in 2003, the IOUs resumed responsibility for electric commodity procurement above their allocated share of the DWR's long-term contracts.

POWER PROCUREMENT AND RESOURCE PLANNING

Effective in 2003, the CPUC:

§ directed the IOUs, including SDG&E, to resume electric commodity procurement to cover their net short energy requirements, which are the total customer energy requirements minus supply from resources owned, operated or contracted;

§ implemented legislation regarding procurement and renewable energy portfolio standards; and
§ established a process for review and approval of the utilities' long-term resource and procurement plans.

This process is intended to identify anticipated needs for generation and transmission resources in order to support transmission grid reliability and to better serve customers.

Sunrise Powerlink Electric Transmission Line

In December 2008, the CPUC issued a final decision authorizing SDG&E to construct a 500-kilovolt (kV) electric transmission line between the Imperial Valley and the San Diego region (Sunrise Powerlink). This line is designed to provide 1,000 MW of increased import capability into the San Diego area. The decision allows SDG&E to construct the Sunrise Powerlink along a route that would generally run south of the Anza-Borrego Desert State Park. The decision also approves the environmental impact review jointly conducted by the CPUC and the Bureau of Land Management (BLM) and establishes a total project cost cap of \$1.883 billion, including approximately \$190 million for environmental mitigation costs. In January 2009, the BLM issued its decision approving the project, route and environmental review.

Sunrise Powerlink costs will be recovered in SDG&E's Electric Transmission Formula Rate (described below), where SDG&E must demonstrate to the FERC that such costs were prudently incurred.

The CPUC decision requires SDG&E to adhere to certain commitments it made during the application process, as follows:

- § not to contract, for any length of term, with conventional coal generators to deliver power via the Sunrise Powerlink;
- § if any currently approved renewable energy contract that is deliverable via the Sunrise Powerlink fails, to replace it with a viable contract with a renewable generator located in the Imperial Valley; and
- § voluntarily raise SDG&E's Renewables Portfolio Standard (RPS) goal to 33 percent by 2020.

The decision is subject to rehearing before the CPUC and appeal to the California courts of appeal, or to the California Supreme Court. Rehearing requests were required to be filed with the CPUC on or before January 23, 2009, and parties wishing to appeal must first seek rehearing with the CPUC. The Utility Consumers Action Network and the Center for Biological Diversity/Sierra Club (CBD) timely applied for rehearing. In addition, on January 21, 2009, CBD filed a petition for writ of review of the CPUC decision with the California Supreme Court. The Supreme Court denied that petition on February 18, 2009.

The Sunrise Powerlink route crosses federal land and requires discretionary approvals from the BLM and the United States Forest Service (USFS). The BLM issued a decision approving its segment of the route on January 20, 2009. SDG&E expects the USFS to issue a decision approving its segment of the route in the second quarter of 2009. Both the BLM and the USFS approvals may be the subject of administrative and judicial appeals.

Before construction can begin, additional discretionary agency permits must be obtained, and those permits may be subject to independent legal review. SDG&E expects the Sunrise Powerlink to be in commercial operation in 2012.

Renewable Energy

Pursuant to Senate Bill 107, enacted in September 2006, the California Public Utilities Code requires certain California electric retail sellers, including SDG&E, to deliver 20 percent of their 2010 retail demand from renewable energy sources. The rules governing this requirement, administered by both the CPUC and the California Energy Commission, are generally known as the Renewables Portfolio Standard (RPS) Program.

In February 2008, the CPUC issued a decision defining flexible compliance mechanisms that can be used to meet the RPS Program goals in 2010 and beyond, including clarifying rules within which insufficient transmission is a permissible reason for failing to satisfy the RPS Program goals. While SDG&E believes it will be able to comply with the RPS Program requirements based on its contracting activity and application of the flexible compliance

mechanisms, it is possible that SDG&E could be penalized, though we cannot know the amount that would be imposed.

SDG&E continues to aggressively secure renewable energy supplies to achieve the RPS Program goals. A substantial number of these supply contracts, however, are contingent upon many factors, including:

§ access to electric transmission infrastructure (including SDG&E's Sunrise Powerlink transmission line);

§ timely regulatory approval of contracted renewable energy projects;

§ the renewable energy project developers' ability to obtain project financing and permitting; and

§ successful development and implementation of the renewable energy technologies.

While CPUC approval was received for the Sunrise Powerlink project in December 2008, due to the extended regulatory review period, SDG&E does not expect the Sunrise Powerlink transmission line to be in operation until 2012, too late to provide transmission capability to meet the RPS Program requirements for 2010 and 2011. Consequently, it is unlikely that SDG&E will be able to meet the RPS Program delivered-energy goal for those years. Without the application of the flexible compliance mechanisms, SDG&E's failure to attain the 20-percent goal in 2010, or any subsequent years' goals, could subject it to CPUC-imposed penalties of 5 cents per kilowatt hour of renewable energy under-delivery up to a maximum penalty of \$25 million per year.

Miramar II Peaking Plant

In January 2009, the CPUC issued a final decision approving SDG&E's application to construct a natural gas-fired peaking plant in San Diego (Miramar II), next to an existing SDG&E peaking plant. Miramar II is currently estimated to cost \$57 million and will have a capacity of 46.5 MW. SDG&E will own and operate the plant. SDG&E expects the plant to be in operation by mid-2009.

Solar Photovoltaic Program

In July 2008, SDG&E filed an application with the CPUC proposing to install solar photovoltaic panels in the San Diego area. These panels could potentially generate approximately 50 MW of direct current power (approximately equivalent to 35 MW of power to the electric grid). We estimate the cost of the program to be \$250 million. A CPUC decision is expected in the third quarter of 2009. If approved, we expect the program to be completed in 2013.

Long-Term Procurement Plan

In December 2007, SDG&E exercised its option to acquire the El Dorado power plant in 2011 at Sempra Generation's net book value. We estimate that the net book value at the date of acquisition will be approximately \$189 million.

San Onofre Nuclear Generating Station (SONGS)

SONGS is jointly owned by Southern California Edison (Edison) (78.21%), SDG&E (20%) and the city of Riverside (1.79%). In September 2008, as part of Edison's 2009 General Rate Case, SDG&E requested a \$116.2 million base revenue requirement for 2009 (a \$10.2 million increase) to recover costs for its 20-percent ownership in SONGS. SDG&E also requested \$13.2 million for its share of SONGS refueling outage expenses (per refueling outage) in 2009, a decrease of \$2.7 million. The CPUC issued draft and alternate decisions in November 2008, and SDG&E expects the final CPUC decision in the first quarter of 2009. Until a final decision is approved, SDG&E has received approval from the CPUC to track the change in SONGS-related revenue requirement from January 1, 2009 through the effective date of the final decision.

Edison is in the process of replacing the steam generators at SONGS. Project completion is expected in 2010 and 2011 for Units 2 and 3, respectively. Total estimated capital expenditure for the project, in 2004 dollars, is \$671 million, excluding AFUDC. SDG&E's current expected share is \$169 million, of which \$51 million has been incurred through December 31, 2008, and there are \$60 million of firm commitments at December 31, 2008. In 2006, the CPUC approved SDG&E's participation in the replacement project as well as providing SDG&E with full recovery of current operating and maintenance costs via balancing account treatment effective January 1, 2007.

Spent Nuclear Fuel

SONGS owners are responsible for interim storage of spent nuclear fuel generated at SONGS until the DOE accepts it for final disposal. Spent nuclear fuel has been stored in the SONGS Units 1, 2 and 3 spent fuel pools and in the independent spent fuel storage installation (ISFSI). Movement of all Unit 1 spent fuel to the ISFSI was completed in 2005.

§ Spent fuel for Unit 2 is being stored in both the Unit 2 spent fuel pool and the ISFSI.

§ Spent fuel for Unit 3 is being stored in both the Unit 3 spent fuel pool and the ISFSI.

Construction of a second ISFSI pad to be completed in 2009 will provide sufficient storage capacity to allow for the continued operation of SONGS through 2022.

Electric Transmission Formula Rate

Effective July 1, 2007, SDG&E recovers its annual transmission capital investment at a return on equity (ROE) of 11.35 percent, an increase from the previous authorized ROE of 11.25 percent. In May 2007, the FERC approved a formula rate mechanism that allows SDG&E to recover the cost of owning and operating its transmission system through annual informational filings with revised rates effective September 1 of each year. In August 2008, SDG&E made such a filing with the FERC, increasing SDG&E's transmission revenue requirement by \$85 million, or 40%, effective September 1, 2008, for a twelve-month period. SDG&E's formula rate mechanism remains in effect through August 2013.

NOTE 15. OTHER REGULATORY MATTERS

GENERAL RATE CASE (GRC)

The CPUC uses a general rate case proceeding to determine the Sempra Utilities' reasonable level of costs and to set rates sufficient to allow the Sempra Utilities to recover their costs and realize an acceptable rate of return on their investment.

In July 2008, the CPUC issued its final decision in both SoCalGas' and SDG&E's 2008 General Rate Case (2008 GRC). The decision adopted the test-year 2008 revenue requirements, effective retroactive to January 1, 2008. It also adopted the post-test year revenue requirements that were included in settlement agreements filed with the CPUC. These settlement agreements were with various groups representing the interests of ratepayers and other constituents.

The CPUC decision:

§ increased the 2008 annual revenue requirement as compared to 2007 by \$59 million for SoCalGas and \$138 million for SDG&E;

§ provides average annual increases of approximately \$52 million (3%) for SoCalGas and \$43 million (3%) for SDG&E, in each of the post-test years' (2009 through 2011) revenue requirements;

§ established a GRC period of four years (2008-2011); and

§ excludes any earnings cap or earnings sharing during the GRC period.

SDG&E and SoCalGas will file their next GRC applications in December 2010 for test year 2012.

UTILITY INCENTIVE MECHANISMS

The CPUC applies performance-based measures and incentive mechanisms to all California utilities. Under such measures or mechanisms, the Sempra Utilities have income potential above authorized base margins if they achieve or exceed specific performance and operating goals, rather than relying solely on expanding utility plant to increase earnings. Generally, for performance-based awards, if performance is above or below specific benchmarks, the

utility is eligible for financial awards or subject to financial penalties. There are four general areas that operate under an incentive structure:

§ employee safety

§ energy efficiency programs

§ natural gas procurement

§ natural gas unbundled storage and system operator hub services

Incentive awards are included in our earnings when we receive the CPUC's approval of the award, if applicable. All award amounts discussed below are on a pretax basis.

Employee Safety

The CPUC determines operational incentives and the associated benchmarks as a component of a general rate case or cost of service decision. The operational performance incentives in effect for fiscal years 2008 through 2011 were established as part of the CPUC's final decision in the 2008 GRC. This decision adopted modified performance measures for customer satisfaction and employee safety for both SDG&E and SoCalGas, and electric reliability for SDG&E. The Sempra Utilities reviewed these modified measures and filed their response in September 2008, accepting the safety performance measure but rejecting the electric reliability and customer satisfaction measures, as allowed by the GRC decision. As a result, effective in 2008, the Sempra Utilities are no longer eligible for awards or subject to penalties for electric reliability and customer satisfaction.

During the second quarter of 2008, the Sempra Utilities received CPUC approval for their 2007 Operational Performance incentive awards of \$10 million for SDG&E and \$2 million for SoCalGas. The Sempra Utilities plans to submit their employee safety results and incentive award claims in May 2009 for performance in 2008.

Energy Efficiency

Energy efficiency awards are determined under an incentive mechanism established by the CPUC that applies to the Sempra Utilities' performance over a three-year (2006 – 2008) energy efficiency program period. In December 2008, the CPUC approved energy efficiency awards of \$10.8 million for SDG&E and \$5.2 million for SoCalGas for 2006 and 2007 energy efficiency results. The awards were based on initial reports of energy efficiency results submitted by the Sempra Utilities and are net of a holdback of 65%. None, some or all of the holdback may be awarded to the Sempra Utilities after the CPUC staff completes its final verification of the energy efficiency results.

In accordance with the mechanism, the Sempra Utilities plan on filing in the first quarter of 2009 for their energy efficiency awards for 2008 results.

Natural Gas Procurement

Beginning April 1, 2008, the SDG&E and SoCalGas core natural gas supply portfolios were combined, and SoCalGas now procures natural gas for SDG&E's core natural gas customers' requirements. All SDG&E assets associated with its core natural gas supply portfolio were transferred or assigned to SoCalGas. Accordingly, SDG&E's incentive mechanism for natural gas procurement awards or penalties ended as of the effective date of the combination of the core natural gas supply portfolios, and SoCalGas' gas cost incentive mechanism (GCIM) is applied on the combined portfolio basis going forward.

In January 2008, the CPUC approved a SoCalGas GCIM award of \$9 million for its core natural gas procurement activities for the 12-month period ended March 31, 2007. In November 2008, SDG&E received approval of a \$2.2 million natural gas procurement incentive award for the final eight-month period ended March 31, 2008.

In January 2009, the CPUC approved a SoCalGas GCIM award of \$6.5 million for core natural gas procurement activities in the 12-month period ended March 31, 2008, which will be recorded in the first quarter of 2009.

Unbundled Gas Storage and System Operator Hub Services

The CPUC issued a final decision in December 2008 adopting an uncontested settlement agreement in Phase I of the Sempra Utilities' Biennial Cost Allocation Proceeding (BCAP). The settlement agreement will be in effect for six years (2009 through 2014) and resolves a number of storage-related issues. It also provides that the annual net

revenues (revenues less allocated service costs) from the unbundled storage and system operator hub services programs be split between ratepayers and shareholders on a graduated basis. The prior mechanism provided a 50/50 split of the net revenues (2007 and prior) between ratepayers and shareholders. The mechanism requires that:

§ the first \$15 million of net revenue be shared 90 percent ratepayer/10 percent shareholder;

§ the next \$15 million shared 75 percent ratepayer/25 percent shareholder; and

§ all additional net revenues shared 50 percent ratepayer/50 percent shareholder.

There is a total annual shareholder cap of \$20 million (pretax).

COST OF CAPITAL

The cost of capital proceeding determines the Sempra Utilities' authorized capital structure and the authorized rate of return that the Sempra Utilities may earn on their electric and natural gas distribution and electric generation assets.

SDG&E

In May 2007, SDG&E filed an application with the CPUC seeking to update its cost of capital, authorized ROE, and debt/equity ratios. In December 2007, the CPUC issued a final decision increasing SDG&E's authorized ROE from 10.7 percent to 11.1 percent effective January 1, 2008, and maintaining SDG&E's current capital structure of:

§ 49.00 percent common equity

§ 5.75 percent preferred equity

§ 45.25 percent long-term debt

As a result, SDG&E's authorized return on rate base (ROR) was 8.40 percent effective January 1, 2008.

In May 2008, the CPUC issued a decision establishing a uniform, multi-year cost of capital mechanism for SDG&E that will replace its existing cost of capital mechanism. The new mechanism requires a full cost of capital application every third year, with the first full application to be filed in April 2010 for test year 2011. If there were significant changes in the bond market between test years, ROE would automatically be adjusted. In any year where the difference between the current 12-month October-September average Moody's utility bond rates and the established benchmark (currently 6.02%) exceeds a 100-basis point trigger, an automatic adjustment to SDG&E's ROE would be made through an October 15 advice letter to become effective on January 1 of the following year. No change in ROE has been triggered for calendar year 2009. There is no provision for capital structure adjustment outside of the test year, but an adjustment may be permitted if credit ratings change in mid-cycle. The decision also allows an adjustment outside of the mechanism process if an extraordinary or catastrophic event occurs that has a material impact.

SoCalGas

SoCalGas' authorized ROE is 10.82 percent and its ROR is 8.68 percent. These rates continue to be effective until market interest-rate changes are large enough to trigger an automatic adjustment or until the CPUC orders a periodic review. SoCalGas' current authorized capital structure is

§ 48.0 percent common equity

§ 6.4 percent preferred equity

§ 45.6 percent long-term debt

2008 BIENNIAL COST ALLOCATION PROCEEDING (BCAP)

The purpose of the BCAP is to adopt a new forecast of natural gas demand to allocate costs and set rates to enable the Sempra Utilities to recover their natural gas distribution costs.

In August 2006, SDG&E, SoCalGas and Edison jointly filed an application with the CPUC seeking its approval of a series of revisions to the natural gas operations and service offerings of the Sempra Utilities. The CPUC issued a final decision in December 2007 approving some, but not all, of the proposals and deferring a number of issues to

the Sempra Utilities' BCAP where they could be addressed more fully. As discussed above, under "Unbundled Gas Storage and System Operator Hub Services," the parties reached a settlement agreement on a majority of the storage-related issues and the CPUC issued its final decision approving the uncontested settlement in December 2008.

The settlement agreement will allow SoCalGas to invest in certain underground natural gas storage replacement and expansion projects. These projects ultimately could add an estimated 145 million cubic feet per day (MMcfd) of storage injection capacity and approximately 7 billion cubic feet (Bcf) of inventory capacity. The cost of these investments is estimated at \$250 million. This investment would be incremental to the capital authorized in the 2008 GRC and would be treated like existing storage assets, providing an additional earnings opportunity through the resulting increase in SoCalGas' rate base in combination with the unbundled storage revenue described in "Unbundled Gas Storage and System Operator Hub Services" above.

NATURAL GAS MARKET OIR

The CPUC considered natural gas market issues, including market design and infrastructure requirements, as part of its Natural Gas Market Order Instituting Rulemaking (OIR). In September 2006, a final decision in Phase II of this proceeding was issued. This decision reaffirmed the adequacy of the capacity of the SoCalGas and SDG&E systems to meet then-current and forecasted demand. Among other things, this decision established revised natural gas quality standards that apply to all natural gas supplies entering the SoCalGas and SDG&E systems, including new supplies of regasified liquefied natural gas. The South Coast Air Quality Management District and the City of San Diego (jointly with Ratepayers for Affordable Clean Energy) filed petitions for review in the California Court of Appeal and the California Supreme Court challenging the CPUC's September 2006 decision. In November 2007, the Court of Appeal determined that the California Supreme Court had exclusive jurisdiction over the petitions for review. In July 2008, the California Supreme Court denied the petitions for review, thereby affirming the CPUC's decision in all respects.

ADVANCED METERING INFRASTRUCTURE

In April 2007, the CPUC approved SDG&E's request to install advanced meters with integrated two-way communications functionality, providing a home area network for all customers, including remote disconnect for the majority of residential customers. SDG&E estimates expenditures for this project of \$572 million (including approximately \$500 million in capital investment). This project involves replacing 1.4 million electric meters and 900,000 natural gas meters throughout SDG&E's service territory. Based on the evaluation of an initial installation of 4,500 meters, SDG&E plans to begin full-scale deployment in the second quarter of 2009, with completion by the end of 2011.

In September 2008, SoCalGas filed an application with the CPUC for approval to upgrade approximately six million natural gas meters with an advanced metering infrastructure at an estimated cost of \$1.1 billion (including approximately \$900 million in capital investment). A final CPUC decision is expected late in 2009. If approved as scheduled, installation of the meters is expected to begin in 2011 and continue through 2015.

GREENHOUSE GAS REGULATION

Legislation was enacted in 2006, including California Assembly Bill 32 (AB 32) and California Senate Bill 1368, mandating reductions in greenhouse gas emissions. The California Air Resources Board (CARB) is the lead agency in developing a plan to meet these requirements and is in the process of developing rules and market mechanisms that will be implemented on January 1, 2012. The CPUC and California Energy Commission are also in the process of making recommendations to the CARB regarding the rules that should apply for the electricity and natural gas sectors. The CARB's formal AB 32 Scoping Plan was adopted in December 2008.

These legislative mandates could affect costs and growth at the Sempra Utilities and at Sempra Generation's power plants. Any cost impact at the Sempra Utilities is expected to be recoverable through rates. As discussed in Note 16 under "Environmental Issues," compliance with this and similar legislation could adversely affect Sempra

Generation. However, such legislation may also present growth opportunities for Sempra Generation because of an increasing preference for natural gas and renewables for electric generation, as opposed to other sources.

NOTE 16. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

We record reserves for legal proceedings in accordance with SFAS 5, *Accounting for Contingencies*. At December 31, 2008, Sempra Energy's reserves for unresolved legal proceedings, on a consolidated basis, were \$53 million. At December 31, 2008, SDG&E and SoCalGas had reserves for unresolved legal proceedings of \$31 million and \$12 million, respectively. RBS Sempra Commodities assumed litigation reserves related to Sempra Commodities, however, we have indemnified RBS should the liabilities from the final resolution of these matters be greater than the reserves.

The uncertainties that exist in legal proceedings make it difficult to estimate with reasonable certainty the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from insured or reserved amounts and could materially adversely affect our business, cash flows, results of operations, and financial condition.

SDG&E 2007 Wildfire Litigation

In October 2007, San Diego County experienced catastrophic wildfires. In July 2008, the California Department of Forestry and Fire Protection (Cal Fire) issued investigation reports stating that two fires (the Witch and Rice fires) were SDG&E "power line caused" and that a third fire (the Guejito fire) occurred when a wire securing a Cox Communications' fiber optic cable came into contact with an SDG&E power line "causing an arc and starting the fire." Cal Fire states that the Rice fire burned approximately 9,500 acres and damaged 206 homes and two commercial properties. The reports indicate that the Witch and Guejito fires merged and eventually burned approximately 198,000 acres, resulted in two fatalities, injured approximately 40 firefighters and destroyed approximately 1,141 homes. Cal Fire is still investigating the perimeters of these two fires to determine the damages associated with each fire. In September 2008, the Consumer Protection and Safety Division of the California Public Utilities Commission issued a staff investigative report reaching substantially the same conclusions as the Cal Fire reports. However, the staff report also opines that the power lines involved in the Witch and Rice fires and the lashing wire involved in the Guejito fire were not properly designed, constructed and maintained as required by commission rules. In November 2008, the Commission initiated an investigation to determine whether SDG&E and Cox Communications violated any rules or regulations in connection with the fires.

Approximately 100 lawsuits, some of which seek class action certification, have been filed against SDG&E and Sempra Energy in San Diego County Superior Court seeking to recover damages in unspecified amounts, including punitive damages and other costs associated with the three fires. Plaintiffs include owners and insurers of properties that were damaged or destroyed and public entities seeking recovery of firefighting costs. They assert various bases for recovery, including inverse condemnation based upon a California Court of Appeal decision finding that another California investor-owned utility was subject to strict liability, without regard to foreseeability or negligence, for damages resulting from a wildfire ignited by power lines. SDG&E has filed cross-complaints against Cox Communications seeking indemnification for any liability that SDG&E may incur that relates to the Guejito fire.

By January 2009, insurers representing 92 percent of the total California homeowner insurance market have paid out approximately \$1.4 billion on more than 18,000 claims relating to the three fires. These include claims for approximately 900 of the 1,300 houses, mobile homes, and apartment units identified in public records as having been destroyed by the three fires. The litigation includes additional claims for uninsured and underinsured structures, firefighting costs, business interruption, evacuation expenses, agricultural damage, and personal injuries. The wildfire litigation, including any appeals, could take a number of years to be resolved in light of the complexity of the matters and the large number of parties and claims involved. If SDG&E's ultimate liability were to exceed its \$1.1 billion of liability insurance coverage, SDG&E would request authorization from the FERC and CPUC to

recover the excess amounts in utility rates. The company is unable to predict the degree of success SDG&E may have in pursuing such requests or the timing of any recovery.

DWR Contract

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

At various times since the contract's inception, Sempra Generation and the DWR have also had disputes regarding the meaning of terms and performance of their agreement under which Sempra Generation sells electricity to the DWR. In 2002, in a state civil action, the DWR sought to void its contract with Sempra Generation, seeking damages, injunctive and declaratory relief, and \$100 million in punitive damages. The DWR claims that Sempra Generation misrepresented its intention and ability to construct a temporary phase of one power project and, alternatively, breached its contract by failure to construct and deliver power from that phase. In June 2005, the California Court of Appeal reversed a previous summary judgment in favor of Sempra Generation. The Court concluded that the contract language was ambiguous and presented triable issues of material fact that must be addressed by further evidence and proceedings. The case was sent back to the trial court. In January 2007, the DWR added additional claims for fraud and breach of contract. In June 2008, the California Court of Appeal upheld the trial court's denial of Sempra Generation's motion to compel the DWR to arbitrate its new claims. The case was returned to the San Diego Superior Court for further proceedings. The case is scheduled for a jury trial in May 2009.

In February 2006, the DWR began an additional arbitration against Sempra Generation related to the manner in which Sempra Generation schedules its Mexicali plant. The DWR sought \$100 million in damages and an order terminating the contract. Arbitration hearings were held in November 2008 and on January 16, 2009, the arbitration panel issued a decision denying all of the DWR's claims.

In September 2008, the DWR initiated another arbitration proceeding against Sempra Generation, alleging that Sempra Generation had breached the parties' agreement in various operational respects, and violated the order issued by the first arbitration panel relating to the amount refunded to the DWR and the manner in which Sempra Generation operates. The DWR seeks \$60 million in damages and an order terminating the contract.

FERC Refund Proceedings

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

Various parties, including Sempra Commodities, appealed the FERC's order to the Ninth Circuit Court of Appeals. In August 2006, the Court of Appeals held that the FERC had properly established October 2, 2000 through June 20, 2001 as the refund period and had properly excluded certain short-term bilateral transactions between sellers and the DWR from the refund proceedings. However, the court also held that the FERC erred in excluding certain multi-day transactions from the refund proceedings. Finally, while the court upheld the FERC's decision not to extend the refund proceedings to the summer period (prior to October 2, 2000), it found that the FERC should have considered other remedies for tariff violations that are alleged to have occurred prior to October 2, 2000. The Ninth Circuit

Court of Appeals returned the matter to the FERC for further proceedings. In November 2007, Sempra Commodities and other entities filed requests for rehearing of the Ninth Circuit Court of Appeals' August 2006 decision.

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

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

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

FERC Manipulation Investigation

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

In June 2003, the FERC ordered a number of entities, including Sempra Commodities, to show why they should not disgorge profits from certain transactions between January 1, 2000 and June 20, 2001 that are asserted to have constituted gaming and/or anomalous market behavior under the California ISO and/or PX tariffs. In October 2003, Sempra Commodities agreed to pay \$7.2 million in full resolution of these investigations. That liability was recorded as of December 31, 2003. The Sempra Commodities settlement was approved by the FERC in August 2004. Certain California parties sought rehearing of this order, which the FERC largely denied in November 2008. The California parties have appealed the FERC's orders to the Ninth Circuit Court of Appeals.

Other Litigation

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

In 1998, we converted our traditional pension plans (other than the SoCalGas union employee plan) to cash balance plans. In July 2005, a lawsuit was filed against SoCalGas in the U.S. District Court for the Central District of California alleging that the conversion unlawfully discriminated against older employees and failed to provide required disclosure of a reduction in benefits. In October 2005, the court dismissed three of the four causes of action and, in March 2006, dismissed the remaining cause of action. Plaintiffs appealed to the Ninth Circuit Court of

Appeals and, in August 2008, the court affirmed the dismissal of three of the four causes of action and reversed the District Court's dismissal of the remaining cause of action. In November 2008, the Ninth Circuit Court of Appeals denied plaintiffs' request for rehearing.

We are also defendants in ordinary routine litigation incidental to our businesses, including personal injury, product liability, property damage and other claims. California juries have demonstrated an increasing willingness to grant large awards, including punitive damages, in these cases.

Resolved Matters

We have accrued liabilities for resolved matters of:

§ \$380 million at Sempra Energy Consolidated

§ \$32 million at SDG&E

§ \$64 million at SoCalGas

These amounts are for settlements related to certain litigation arising out of the 2000 – 2001 California energy crisis.

The following is a description of specific litigation settlements.

Continental Forge Settlement

The Continental Forge class-action and individual antitrust and unfair competition lawsuits in California and Nevada alleged that Sempra Energy and the Sempra Utilities unlawfully sought to control natural gas and electricity markets. The detailed terms of these settlements were reported previously, and are summarized as follows:

§ In January 2006, in order to settle the California and Nevada litigation, we agreed to make cash payments in installments totaling \$377 million. Of this amount, \$347 million relates to the California Continental Forge and California class action price reporting litigation, and \$30 million relates to the Nevada Continental Forge litigation. In March 2007, Sempra Energy and the Sempra Utilities entered into a separate settlement agreement with the City of Los Angeles resolving all of its claims in the Continental Forge litigation in return for payment of \$8.5 million.

§ Additional consideration for the January 2006 California settlement includes an agreement that Sempra LNG would sell to the Sempra Utilities, subject to annual CPUC approval, regasified liquefied natural gas (LNG) for a period of 18 years beginning in 2011 at the California border index price minus \$0.02 per million British thermal units (MMBtu). Also, Sempra Generation voluntarily would reduce the price that it charges for power and limit the locations at which it would deliver power under its DWR contract. Based on the expected contractual power deliveries, this discount would have a potential value of \$300 million over the remaining term of the contract.

§ Under the terms of the January 2006 settlements, \$83 million was paid in August 2006, \$83 million was paid in August 2007, and \$25.8 million was paid in August 2008. Installments of \$24.8 million will be paid on each successive anniversary of the closing date (August 2008) through the seventh anniversary of the closing date. Under the terms of the City of Los Angeles settlement, \$8.5 million was paid in April 2007. A portion of the reserves was discounted at 7 percent, the rate specified for prepayments in the settlement agreement. For payments not addressed in the agreement, 6 percent was used to approximate our average cost of financing.

§ In September 2006, the Clark County District Court approved the Nevada settlement. In July 2008, the California Attorney General and the DWR dismissed their appeal of the July 2006 San Diego County Superior Court order approving the California settlement, and all of the settlements became final in August 2008. The reserves recorded for the settlements in 2005 fully provide for the present value of both the cash amounts to be paid in the settlements and the price discount to be provided on electricity to be delivered under the DWR contract by Sempra Generation.

Natural Gas Cases

In April 2003, Sierra Pacific Resources and its utility subsidiary Nevada Power filed a lawsuit in the U.S. District Court in Nevada against major natural gas suppliers, including Sempra Energy, the Sempra Utilities and Sempra Commodities. The lawsuit claimed that the defendants conspired to manipulate and inflate the prices that Nevada Power had to pay for its natural gas by 1) preventing the construction of natural gas pipelines to serve Nevada and other Western states, and 2) reporting artificially inflated prices to trade publications. In December 2008, we paid \$700,000 to settle the case, which has now been dismissed.

Five cases against Sempra Energy, Sempra Commodities, the Sempra Utilities and various other companies are pending in the U.S. District Court in Nevada. Plaintiffs claim that energy prices were unlawfully manipulated 1) by reporting artificially inflated natural gas prices to trade publications and 2) by entering into deceptive transactions such as wash trades and churning transactions. In January 2009, we entered into a settlement agreement in which we agreed to pay \$2 million to resolve these cases.

Electricity Case

In November 2006, the U.S. District Court in San Diego dismissed a lawsuit filed by the California Attorney General in November 2005 against Sempra Commodities alleging illegal market-gaming activities during the California energy crisis and claiming unspecified civil penalties and damages. The Ninth Circuit Court of Appeals affirmed the dismissal in September 2008.

NATURAL GAS CONTRACTS

SoCalGas has the responsibility for procuring natural gas for both SDG&E's and SoCalGas' core customers in a combined portfolio. SoCalGas buys natural gas under short-term and long-term contracts for this portfolio. Purchases are from various southwestern U.S., U.S. Rockies, and Canadian suppliers and are primarily based on monthly spot-market prices.

SoCalGas transports natural gas primarily under long-term firm interstate pipeline capacity agreements that provide for annual reservation charges, which are recovered in rates. SoCalGas has commitments with interstate pipeline companies for firm pipeline capacity under contracts that expire at various dates through 2025. Note 15 discusses the CPUC's Natural Gas Market OIR.

At December 31, 2008, the future minimum payments under existing natural gas contracts and natural gas storage and transportation contracts were:

Sempra Energy Consolidated

<i>(Dollars in millions)</i>	Storage and Transportation	Natural Gas *	Total *
2009	\$ 142	\$ 1,123	\$ 1,265
2010	111	424	535
2011	74	267	341
2012	45	3	48
2013	44	3	47
Thereafter	211	--	211
Total minimum payments	\$ 627	\$ 1,820	\$ 2,447

* Excludes amounts related to Sempra LNG's contract with Tangguh PSC Contractors discussed below.

SoCalGas

<i>(Dollars in millions)</i>	Transportation	Natural Gas	Total
2009	\$ 136	\$ 855	\$ 991
2010	111	423	534
2011	74	266	340
2012	45	3	48
2013	44	3	47
Thereafter	211	--	211
Total minimum payments	\$ 621	\$ 1,550	\$ 2,171

Total payments under natural gas contracts were:

<i>(Dollars in millions)</i>	Years ended December 31,		
	2008	2007	2006
Sempra Energy Consolidated	\$ 3,469	\$ 2,976	\$ 2,926
SDG&E	12	390	380
SoCalGas	3,145	2,413	2,387

Sempra LNG has a purchase agreement with Tangguh PSC Contractors for the supply of 500 million cubic feet of natural gas per day from Indonesia's Tangguh liquefaction facility to Sempra LNG's Energía Costa Azul regasification terminal. The contracted volume deliveries under the 20-year agreement will begin in 2009 and supply half of the capacity of Energía Costa Azul. The price of natural gas that Sempra LNG purchases is based on the Southern California border index.

As of December 31, 2008, minimum payments under this contract are expected to be:

§ \$366 million in 2009

§ \$1.1 billion in 2010

§ \$1.1 billion in 2011

§ \$1.1 billion in 2012

§ \$1.1 billion in 2013

§ \$17.9 billion for the remainder of the contract term

Minimum payments are based on forward prices of the Southern California border index price, plus an estimated 1 percent escalation per year beyond 2013. Sempra LNG has a contract to sell a portion of the volumes purchased from Tangguh PSC to Mexico's national electric company, Comisión Federal de Electricidad (CFE) at prices that are based on the Southern California border index price. Sempra LNG also has an agreement with RBS Sempra Commodities for RBS Sempra Commodities to market any volumes purchased from Tangguh PSC that are not sold to the CFE.

PURCHASED-POWER CONTRACTS

For 2009, SDG&E expects to receive 27 percent of its customer power requirements from DWR allocations. The remaining requirements are expected to be met as follows

§ SONGS: 18 percent

§ Long-term contracts: 18 percent (of which 9 percent is provided by renewable energy contracts expiring on various dates through 2025)

§ Other SDG&E-owned generation (including Palomar) and tolling contracts (including OMEC): 22 percent

§ Spot market purchases: 15 percent.

The long-term contracts expire on various dates through 2035.

At December 31, 2008, the estimated future minimum payments under SDG&E's long-term purchased-power contracts (not including the DWR allocations) were:

<i>(Dollars in millions)</i>	
2009	\$ 342
2010	249
2011	252
2012	250
2013	245
Thereafter	1,676
Total minimum payments*	\$ 3,014

* Excludes amounts related to OMEC as it is consolidated at SDG&E.

The payments represent capacity charges and minimum energy purchases. SDG&E is required to pay additional amounts for actual purchases of energy that exceed the minimum energy commitments. Excluding DWR-allocated contracts, total payments under the contracts were:

§ \$393 million in 2008

§ \$351 million in 2007

§ \$344 million in 2006

LEASES

Sempra Energy, SDG&E, PE and SoCalGas have operating leases on real and personal property expiring at various dates from 2009 to 2045. Certain leases on office facilities contain escalation clauses requiring annual increases in rent ranging from 2 percent to 6 percent at Sempra Energy, 4 percent to 6 percent at SDG&E, and 2 percent to 5 percent at both PE and SoCalGas. The rentals payable under these leases may increase by a fixed amount each year or by a percentage of a base year, and most leases contain extension options that we could exercise.

The Sempra Utilities had a master lease agreement with GE Capital, which was terminated in November 2008 and contained a repayment provision for any outstanding amounts to be repaid within twelve months. At December 31, 2008, these amounts were \$38 million and \$46 million for SDG&E and SoCalGas, respectively. A new master lease agreement was entered into with RBS Asset Finance, Inc., with an aggregate maximum limit of \$100 million combined for the Sempra Utilities.

Rent expense totaled:

<i>(Dollars in millions)</i>	Years ended December 31,		
	2008	2007	2006
Sempra Energy Consolidated	\$ 100	\$ 141	\$ 131
SDG&E	25	24	23
PE	65	68	62
SoCalGas	52	54	49

At December 31, 2008, the minimum rental commitments payable in future years under all noncancelable leases were as follows:

<i>(Dollars in millions)</i>	Sempra Energy			
	Consolidated	SDG&E	PE	SoCalGas
2009	\$ 99	\$ 24	\$ 60	\$ 47
2010	98	22	52	46
2011	83	21	39	39
2012	51	19	9	9
2013	42	16	5	4
Thereafter	346	59	14	14
Total future rental commitments	\$ 719	\$ 161	\$ 179	\$ 159

CONSTRUCTION AND DEVELOPMENT PROJECTS

Sempra Energy has developed or is in the process of constructing various capital projects in the United States and in Mexico. The following is a summary of contractual commitments and contingencies related to the construction projects.

SDG&E

At December 31, 2008, SDG&E has commitments to make payments in 2009 of:

§ \$48 million for implementation of the Smart Metering Program

§ \$28 million for replacement of the SONGS steam generators

Sempra Pipelines & Storage

Sempra Pipelines & Storage entered into agreements for the construction of the natural gas storage facilities at Bay Gas and Mississippi Hub. At December 31, 2008, Sempra Pipelines & Storage expects to make payments of \$35 million in 2009 under each of these contracts.

Liberty Gas Storage as currently permitted, is a 17 Bcf salt-cavern natural gas storage facility located in Calcasieu Parish, Louisiana. The facility has been under construction by Sempra Pipelines & Storage and its 25-percent partner Proliance Transportation and Storage, LLC. When completed, Liberty will be connected with several interstate pipelines, including the Cameron Interstate Pipeline operated by Sempra Pipelines & Storage, and will connect area LNG regasification terminals to an interstate natural gas transmission system and storage facilities. We estimate the total project cost to be approximately \$250 million, and we have expended \$204 million through December 31, 2008. Completion of the project has been delayed by subsurface and well-completion problems. If ongoing corrective measures prove to be unsuccessful, the salt-cavern facility may not go into service, or may have reduced capacity when placed in service. In the event that the cavern is abandoned, we may be required to take an impairment charge of up to \$65 million after tax.

Sempra LNG

In August 2005, Sempra LNG entered into an agreement with a group of companies for the construction of the Cameron LNG receipt facility. As of December 31, 2008, Sempra LNG expects to make payments under the contracts of \$27 million in 2009. Force majeure and cost overrun claims have been made by some of these companies for additional costs, primarily related to hurricanes. Sempra LNG is currently in negotiations with the companies, and cannot estimate at this time the additional amounts that may be paid.

Sempra LNG has contracted for the construction of the Energía Costa Azul LNG receipt facility, the nitrogen-injection facility and the project's breakwater. As of December 31, 2008, Sempra LNG expects to make payments under the contracts of \$39 million in 2009.

GUARANTEES

Sempra Energy's guarantees related to RBS Sempra Commodities and Rockies Express are discussed in Note 6.

Sempra Energy has guaranteed \$25 million related to debt issued by Chilquinta Energía Finance Co., LLC, an unconsolidated affiliate. The fair value of this guarantee is negligible and the associated performance risk is not significant.

As of December 31, 2008, SDG&E and SoCalGas did not have any outstanding guarantees.

SEMPRA GENERATION'S CONTRACT WITH THE DWR

In May 2001, Sempra Generation entered into a ten-year agreement with the DWR to supply up to 1,900 MW of power to California. Sempra Generation delivers energy to the DWR, primarily from its portfolio of natural gas-fired plants in the western United States and Baja California, Mexico. Additional information concerning this contract is provided under "Legal Proceedings - DWR Contract" above.

DEPARTMENT OF ENERGY NUCLEAR FUEL DISPOSAL

The Nuclear Waste Policy Act of 1982 made the DOE responsible for the disposal of spent nuclear fuel. However, it is uncertain when the DOE will begin accepting spent nuclear fuel from SONGS. This delay will lead to increased costs for spent fuel storage. This cost will be recovered through SONGS revenue unless SDG&E is able to recover the increased cost from the federal government.

ENVIRONMENTAL ISSUES

Our operations are subject to federal, state and local environmental laws. We also are subject to regulations related to hazardous wastes, air and water quality, land use, solid waste disposal and the protection of wildlife. These laws and regulations require that we investigate and correct the effects of the release or disposal of materials at sites associated with our past and our present operations. These sites include those at which we have been identified as a Potentially Responsible Party (PRP) under the federal Superfund laws and similar state laws.

In addition, we are required to obtain numerous governmental permits, licenses and other approvals to construct facilities and operate our businesses. The related costs of environmental monitoring, pollution control equipment, cleanup costs, and emissions fees are significant. Increasing national and international concerns regarding global warming and mercury, carbon dioxide, nitrogen oxide and sulfur dioxide emissions could result in requirements for additional pollution control equipment or significant emissions fees or taxes that could adversely affect Sempra Generation. The Sempra Utilities' costs to operate their facilities in compliance with these laws and regulations generally have been recovered in customer rates.

We generally capitalize the significant costs we incur to mitigate or prevent future environmental contamination or extend the life, increase the capacity, or improve the safety or efficiency of property used in current operations. The following table shows (in millions) our capital expenditures in order to comply with environmental laws and regulations:

	Years ended December 31,		
	2008	2007	2006
Sempra Energy Consolidated*	\$ 30	\$ 19	\$ 26
SDG&E	18	11	14
SoCalGas	9	6	6

* In cases of non-wholly owned affiliates, includes only our share.

Increases from 2007 to 2008 are primarily due to SDG&E's spending related to the Sunrise Powerlink and the Miramar II peaking plant, and Sempra LNG's spending related to the Energía Costa Azul LNG receipt terminal. We have not identified any significant environmental issues outside the United States. Over the next five years, SDG&E expects to incur costs of approximately \$190 million for environmental mitigation measures associated with the Sunrise Powerlink construction project.

At the Sempra Utilities, costs that relate to current operations or an existing condition caused by past operations are generally recorded as a regulatory asset due to the probability that these costs will be recovered in rates.

The environmental issues currently facing us or resolved during the last three years include 1) investigation and remediation of the Sempra Utilities' manufactured-gas sites, 2) cleanup of third-party waste-disposal sites used by the Sempra Utilities at sites which have been identified as PRPs and 3) mitigation of damage to the marine environment caused by the cooling-water discharge from SONGS. The requirements for enhanced fish protection and restoration of 150 acres of coastal wetlands for the SONGS mitigation are in process and a 150-acre artificial reef was completed in 2008. The table below shows the status at December 31, 2008, of the Sempra Utilities' manufactured-gas sites and the third-party waste-disposal sites identified as PRPs:

	# Sites Completed	# Sites In Process
SDG&E		
Manufactured-gas sites	3	--
Third-party waste-disposal sites	1	1
SoCalGas		
Manufactured-gas sites	34	8
Third-party waste-disposal sites	1	1

We record environmental liabilities at undiscounted amounts when our liability is probable and the costs can be reasonably estimated. In many cases, however, investigations are not yet at a stage where we can determine whether we are liable or, if the liability is probable, to reasonably estimate the amount or range of amounts of the costs.

Estimates of our liability are further subject to uncertainties such as the nature and extent of site contamination, evolving cleanup standards and imprecise engineering evaluations. We review our accruals periodically and, as investigations and cleanup proceed, we make adjustments as necessary. The following table shows (in millions) our accrued liabilities for environmental matters at December 31, 2008:

	Manufac-tured Gas Sites	Waste Disposal Sites (PRP*)	Former Fossil- Fueled Power Plants	Other Hazardous Waste Sites	Total
SDG&E**	\$ 0.3	\$ 0.2	\$ 6.3	\$ 1.0	\$ 7.8
SoCalGas	37.4	0.6	--	1.8	39.8
Other	0.2	0.9	--	--	1.1
Total Sempra Energy	\$ 37.9	\$ 1.7	\$ 6.3	\$ 2.8	\$ 48.7

* For which we have been identified as a Potentially Responsible Party

** Does not include SDG&E's liability for SONGS marine mitigation.

We expect to pay the majority of these accruals over the next three years. In connection with the issuance of operating permits, SDG&E and the other owners of SONGS previously reached an agreement with the California Coastal Commission to mitigate the damage to the marine environment caused by the cooling-water discharge from SONGS. At December 31, 2008, SDG&E's share of the estimated mitigation costs remaining to be spent through 2050 is \$19.7 million, which is recoverable in rates.

NUCLEAR INSURANCE

SDG&E and the other owners of SONGS have insurance to cover claims from nuclear liability incidents arising at SONGS. This insurance provides \$300 million in coverage limits, the maximum amount available, including coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to \$12.2 billion of secondary financial protection (SFP). If a nuclear liability loss occurring at any U.S. licensed/commercial reactor exceeds the \$300 million insurance limit, all nuclear reactor owners could be required to contribute to the SFP. SDG&E's contribution would be up to \$47 million. This amount is subject to an annual maximum of \$7 million, unless a default occurs by any other SONGS owner. If SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have \$2.75 billion of nuclear property, decontamination, and debris removal insurance. In addition, the SONGS owners have up to \$490 million insurance coverage for outage expenses and replacement power costs due to accidental property damage. This coverage is limited to \$3.5 million per week for the first 52 weeks, then \$2.8 million per week for up to 110 additional weeks. There is a 12-week waiting period deductible. These insurance coverages are provided through a mutual insurance company. Insured members are subject to retrospective premium assessments. SDG&E could be assessed up to \$8.5 million.

The nuclear property insurance program includes an industry aggregate loss limit for non-certified acts of terrorism (as defined by the Terrorism Risk Insurance Act). The industry aggregate loss limit for property claims arising from non-certified acts of terrorism is \$3.24 billion. This is the maximum amount that will be paid to insured members who suffer losses or damages from these non-certified terrorist acts.

CONCENTRATION OF CREDIT RISK

We maintain credit policies and systems to manage our overall credit risk. These policies include an evaluation of potential counterparties' financial condition and an assignment of credit limits. These credit limits are established based on risk and return considerations under terms customarily available in the industry. We grant credit to utility customers and counterparties, substantially all of whom are located in our service territory, which covers most of Southern California and a portion of central California for SoCalGas, and all of San Diego County and an adjacent portion of Orange County for SDG&E.

As described above, Sempra Generation has a contract with the DWR to supply up to 1,900 MW of power to the state over 10 years, beginning in 2001. Sempra Generation would be at risk for the amounts of outstanding billings and the continued viability of the contract if the DWR were to default on its payments under this contract. The average monthly billing related to this contract is \$38 million and is normally collected by the end of the next month.

When they become operational, projects at Sempra LNG and Sempra Pipelines & Storage place significant reliance on the ability of their suppliers and customers to perform on long-term agreements and on our ability to enforce contract terms in the event of nonperformance. We consider many factors, including the negotiation of supplier and customer agreements, when we evaluate and approve development projects.

As a transitional measure, we continue to provide back-up guarantees for a portion of RBS Sempra Commodities' trading obligations and for certain credit facilities with third party lenders pending novation of the remaining trading obligations to RBS. In addition, in conjunction with the other owners of the Rockies Express, we guarantee Rockies Express' \$600 million of floating rate notes maturing in September 2009 and borrowings under its credit facility. We discuss these credit guarantees in Note 6.

NOTE 17. SEGMENT INFORMATION

We have five separately managed reportable segments, as follows:

1. *SDG&E* provides electric service to San Diego and southern Orange counties and natural gas service to San Diego County.
2. *SoCalGas* is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.
3. *Sempra Commodities* holds our investment in RBS Sempra Commodities, a joint venture with RBS. The partnership was formed on April 1, 2008 from our commodities-marketing businesses previously reported in this segment. The partnership's commodity trading businesses serve customers in natural gas, electricity, petroleum and petroleum products, and base metals.

We provide further discussion regarding the joint venture in Note 4. Sempra Commodities also includes the operating results of Sempra Rockies Marketing, which holds firm service capacity on the Rockies Express Pipeline.

4. *Sempra Generation* develops, owns and operates electric power plants in California, Nevada, Arizona and Mexico to serve wholesale electricity markets in North America.
5. *Sempra Pipelines & Storage* develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities in the United States and Mexico, and in companies that provide natural gas or electricity services in Argentina, Chile, Mexico and Peru. We are currently pursuing the sale of our interests in the Argentine utilities, which we discuss further in Note 4. Sempra Pipelines & Storage also operates a small natural gas distribution utility in Southwest Alabama.

We evaluate each segment's performance based on reported net income. The Sempra Utilities operate in essentially separate service territories, under separate regulatory frameworks and rate structures set by the CPUC. The Sempra Utilities' transactions are based on rates set by the CPUC and the FERC. We describe the accounting policies of our segments in Note 1.

Sales to the DWR, which is a customer of the Sempra Generation segment and which is discussed in various sections of this Annual Report, comprised 10 percent of our revenues in 2008 and 9 percent in each of 2007 and 2006.

The operations that were discontinued in the first half of 2006, as described in Note 5, had been in the Sempra Generation segment, with the exception of Bangor Gas and Frontier Energy, which were in the Sempra Pipelines & Storage segment.

The following tables show selected information by segment from our Statements of Consolidated Income and Consolidated Balance Sheets. The tables exclude amounts from discontinued operations, unless otherwise noted.

Amounts labeled as "all other" in the following tables consist primarily of parent organizations and Sempra LNG.

SEGMENT INFORMATION*(Dollars in millions)*

	Years ended December 31,					
	2008		2007		2006	
REVENUES						
SDG&E	\$ 3,251	30 %	\$ 2,852	25 %	\$ 2,785	24 %
SoCalGas	4,768	44	4,282	38	4,181	36
Sempra Commodities	500	5	2,674	23	3,256	28
Sempra Generation	1,784	17	1,476	13	1,454	12
Sempra Pipelines & Storage	457	4	314	3	295	2
All other	74	1	(22)	--	(21)	--
Adjustments and eliminations	(7)	--	(51)	(1)	(93)	(1)
Intersegment revenues	(69)	(1)	(87)	(1)	(96)	(1)
Total	\$ 10,758	100 %	\$ 11,438	100 %	\$ 11,761	100 %
INTEREST EXPENSE						
SDG&E	\$ 96		\$ 96		\$ 97	
SoCalGas	62		70		70	
Sempra Commodities	23		48		72	
Sempra Generation	15		15		19	
Sempra Pipelines & Storage	18		16		14	
All other	156		206		262	
Intercompany eliminations	(117)		(179)		(183)	
Total	\$ 253		\$ 272		\$ 351	
INTEREST INCOME						
SDG&E	\$ 6		\$ 8		\$ 6	
SoCalGas	11		27		29	
Sempra Commodities	7		17		10	
Sempra Generation	9		28		32	
Sempra Pipelines & Storage	18		14		18	
All other	111		157		197	
Intercompany eliminations	(117)		(179)		(183)	
Total	\$ 45		\$ 72		\$ 109	
DEPRECIATION AND AMORTIZATION						
SDG&E	\$ 298	43 %	\$ 301	44 %	\$ 291	44 %
SoCalGas	280	41	281	41	267	41
Sempra Commodities	6	1	26	3	25	4
Sempra Generation	56	8	56	8	46	7
Sempra Pipelines & Storage	20	3	11	2	12	2
All other	27	4	11	2	16	2
Total	\$ 687	100 %	\$ 686	100 %	\$ 657	100 %
INCOME TAX EXPENSE (BENEFIT)						
SDG&E	\$ 161		\$ 135		\$ 152	
SoCalGas	140		160		173	
Sempra Commodities	201		252		294	
Sempra Generation	100		111		243	
Sempra Pipelines & Storage	23		(2)		12	
All other	(187)		(132)		(233)	
Total	\$ 438		\$ 524		\$ 641	
EQUITY EARNINGS (LOSSES)						
Earnings (losses) recorded before tax:						
Sempra Commodities	\$ 383		\$ --		\$ --	
Sempra Generation	8		9		354	
Sempra Pipelines & Storage	43		(4)		1	
All other	(14)		(14)		(17)	
Total	\$ 420		\$ (9)		\$ 338	
Earnings (losses) recorded net of tax:						
Sempra Pipelines & Storage	\$ 60		\$ 59		\$ (166)	
Sempra Commodities	3		40		(16)	
Total	\$ 63		\$ 99		\$ (182)	

SEGMENT INFORMATION (CONT'D)*(Dollars in millions)*

	At December 31 or years ended December 31,					
	2008		2007		2006	
NET INCOME						
SDG&E*	\$ 339	31%	\$ 283	25%	\$ 237	17%
SoCalGas*	244	22	230	21	223	16
Sempra Commodities	345	31	499	45	504	36
Sempra Generation	222	20	162	15	375	27
Sempra Pipelines & Storage	106	9	64	6	(165)	(12)
Discontinued operations	--	--	(26)	(2)	315	22
All other	(143)	(13)	(113)	(10)	(83)	(6)
Total	\$ 1,113	100%	\$ 1,099	100%	\$ 1,406	100%
ASSETS**						
SDG&E	\$ 9,079	34%	\$ 8,499	30%	\$ 7,794	28%
SoCalGas	7,351	28	6,406	22	6,359	23
Sempra Commodities	2,092	8	8,620	30	8,631	31
Sempra Generation	1,860	7	1,759	6	2,416	9
Sempra Pipelines & Storage	4,060	15	2,287	8	2,215	8
Discontinued operations	--	--	--	--	62	--
All other	2,843	11	2,182	8	1,923	7
Intersegment receivables	(885)	(3)	(1,036)	(4)	(1,701)	(6)
Total	\$ 26,400	100%	\$ 28,717	100%	\$ 27,699	100%
EXPENDITURES FOR PROPERTY, PLANT & EQUIPMENT						
SDG&E	\$ 884	43%	\$ 714	35%	\$ 1,070	56%
SoCalGas	454	22	457	23	413	22
Sempra Commodities	21	1	43	2	29	2
Sempra Generation	59	3	13	1	40	2
Sempra Pipelines & Storage	264	13	267	13	181	9
All other	379	18	517	26	644	34
Intercompany eliminations	--	--	--	--	(470)	(25)
Total	\$ 2,061	100%	\$ 2,011	100%	\$ 1,907	100%
GEOGRAPHIC INFORMATION						
Long-lived assets						
United States	\$ 17,637	88%	\$ 13,752	85%	\$ 12,384	87%
Latin America	2,476	12	2,352	15	1,865	13
Europe	---	--	23	--	12	--
Total	\$ 20,113	100%	\$ 16,127	100%	\$ 14,261	100%
Revenues						
United States	\$ 9,743	91%	\$ 10,165	89%	\$ 10,407	89%
Latin America	918	8	652	6	637	5
Europe	93	1	525	5	638	6
Canada	(12)	--	37	--	43	--
Asia	16	--	59	--	36	--
Total	\$ 10,758	100%	\$ 11,438	100%	\$ 11,761	100%

* After preferred dividends.

** 2007 and 2006 are adjusted to reflect the adoption of FASB Staff Position FIN 39-1.

NOTE 18. QUARTERLY FINANCIAL DATA (UNAUDITED)

SEMPRA ENERGY				
<i>(In millions, except per share amounts)</i>				
	Quarters ended			
	March 31	June 30	September 30	December 31
2008				
Revenues	\$ 3,270	\$ 2,503	\$ 2,692	\$ 2,293
Expenses and other income	\$ 2,922	\$ 2,075	\$ 2,308	\$ 1,965
Income from continuing operations	\$ 242	\$ 244	\$ 308	\$ 319
Net income	\$ 242	\$ 244	\$ 308	\$ 319
Basic earnings per share*:				
Income from continuing operations	\$ 0.94	\$ 0.99	\$ 1.26	\$ 1.32
Net income	\$ 0.94	\$ 0.99	\$ 1.26	\$ 1.32
Average common shares outstanding	258.6	245.6	243.8	241.7
Diluted earnings per share*:				
Income from continuing operations	\$ 0.92	\$ 0.98	\$ 1.24	\$ 1.30
Net income	\$ 0.92	\$ 0.98	\$ 1.24	\$ 1.30
Average common shares outstanding	262.7	249.7	247.9	244.5
2007				
Revenues	\$ 3,004	\$ 2,661	\$ 2,663	\$ 3,110
Expenses and other income	\$ 2,772	\$ 2,247	\$ 2,217	\$ 2,652
Income from continuing operations	\$ 227	\$ 280	\$ 330	\$ 288
Net income	\$ 228	\$ 277	\$ 305	\$ 289
Basic earnings per share*:				
Income from continuing operations	\$ 0.88	\$ 1.08	\$ 1.27	\$ 1.12
Net income	\$ 0.88	\$ 1.07	\$ 1.17	\$ 1.12
Average common shares outstanding	259.5	260.2	259.6	257.9
Diluted earnings per share*:				
Income from continuing operations	\$ 0.86	\$ 1.06	\$ 1.24	\$ 1.10
Net income	\$ 0.86	\$ 1.05	\$ 1.15	\$ 1.10
Average common shares outstanding	264.0	265.0	264.3	262.8

* Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the year.

In the first quarter of 2008, Revenues included \$457 million and Expenses and Other Income included \$362 million for Sempra Commodities prior to the formation of RBS Sempra Commodities on April 1, 2008.

SDG&E*(Dollars in millions)*

	Quarters ended			
	March 31	June 30	September 30	December 31
2008				
Operating revenues	\$ 746	\$ 754	\$ 949	\$ 802
Operating expenses	617	642	757	665
Operating income	\$ 129	\$ 112	\$ 192	\$ 137
Net income	\$ 75	\$ 62	\$ 125	\$ 82
Dividends on preferred stock	1	1	2	1
Earnings applicable to common shares	\$ 74	\$ 61	\$ 123	\$ 81
2007				
Operating revenues	\$ 709	\$ 659	\$ 716	\$ 768
Operating expenses	589	548	549	666
Operating income	\$ 120	\$ 111	\$ 167	\$ 102
Net income	\$ 63	\$ 52	\$ 125	\$ 48
Dividends on preferred stock	1	1	2	1
Earnings applicable to common shares	\$ 62	\$ 51	\$ 123	\$ 47

Net income in the first quarter of 2008 included the favorable resolution of prior years' income tax issues of \$9 million. Net income in the third quarter of 2008 included \$33 million for the retroactive impact of the 2008 GRC decision for January 1 through June 30, 2008, and reserves for litigation matters of \$17 million. We discuss the final CPUC decision, issued in July 2008, in Note 15.

Net income in the third quarter of 2007 included favorable resolutions of prior years' income tax issues of \$20 million and regulatory matters of \$26 million.

PE				
<i>(Dollars in millions)</i>				
	Quarters ended			
	March 31	June 30	September 30	December 31
2008				
Operating revenues	\$ 1,556	\$ 1,143	\$ 1,077	\$ 992
Operating expenses	1,447	1,041	946	899
Operating income	\$ 109	\$ 102	\$ 131	\$ 93
Net income	\$ 58	\$ 57	\$ 80	\$ 57
Dividends on preferred stock	1	1	1	1
Earnings applicable to common shares	\$ 57	\$ 56	\$ 79	\$ 56
2007				
Operating revenues	\$ 1,368	\$ 981	\$ 819	\$ 1,114
Operating expenses	1,260	877	701	1,008
Operating income	\$ 108	\$ 104	\$ 118	\$ 106
Net income	\$ 58	\$ 56	\$ 66	\$ 62
Dividends on preferred stock	1	1	1	1
Earnings applicable to common shares	\$ 57	\$ 55	\$ 65	\$ 61

SOCALGAS				
<i>(Dollars in millions)</i>				
	Quarters ended			
	March 31	June 30	September 30	December 31
2008				
Operating revenues	\$ 1,556	\$ 1,143	\$ 1,077	\$ 992
Operating expenses	1,446	1,042	946	900
Operating income	\$ 110	\$ 101	\$ 131	\$ 92
Net income	\$ 57	\$ 57	\$ 77	\$ 54
Dividends on preferred stock	--	1	--	--
Earnings applicable to common shares	\$ 57	\$ 56	\$ 77	\$ 54
2007				
Operating revenues	\$ 1,368	\$ 981	\$ 819	\$ 1,114
Operating expenses	1,260	876	702	1,007
Operating income	\$ 108	\$ 105	\$ 117	\$ 107
Net income	\$ 55	\$ 55	\$ 63	\$ 58
Dividends on preferred stock	--	1	--	--
Earnings applicable to common shares	\$ 55	\$ 54	\$ 63	\$ 58

Net income in the third quarter of 2008 for PE and SoCalGas included \$7 million for the retroactive impact of the 2008 GRC decision for January 1 through June 30, 2008. We discuss the final CPUC decision, issued in July 2008, in Note 15.

Net income in the fourth quarter of 2008 for PE and SoCalGas included litigation expenses of \$7 million.

GLOSSARY

AB 32	California Assembly Bill 32	Elk Hills	Elk Hills Power
AEP	American Electric Power	EPS	Earnings per Share
AFUDC	Allowance for Funds Used During Construction	ESOP	Employee Stock Ownership Plan
ALJ	Administrative Law Judge	FASB	Financial Accounting Standards Board
APB	Accounting Principles Board	FERC	Federal Energy Regulatory Commission
ARB	Accounting Research Bulletin	FIN	FASB Interpretation
Bay Gas	Bay Gas Storage Company	FSP	FASB Staff Position
BCAP	Biennial Cost Allocation Proceeding	GAAP	Accounting Principles Generally Accepted in the United States of America
Bcf	Billion Cubic Feet (of natural gas)	GCIM	Gas Cost Incentive Mechanism
Black-Scholes Model	Black-Scholes Option-Pricing Model	GRC	General Rate Case
BLM	Bureau of Land Management	ICSID	International Center for the Settlement of Investment Disputes
Cal Fire	California Department of Forestry and Fire Protection	IFRS	International Financial Reporting Standards
CARB	California Air Resources Board	IOUs	Investor-Owned Utilities
CBD	Center for Biological Diversity/Sierra Club	ISFSI	Independent Spent Fuel Storage Installation
CEOB	California Energy Oversight Board	ISO	Independent System Operator
CFE	Comisión Federal de Electricidad	KMP	Kinder Morgan Energy Partners, L.P.
Coletto Creek	Coletto Creek Power Station	Liberty	Liberty Gas Storage
Conoco	ConocoPhillips	LIFO	Last-in first-out inventory costing method
CPUC	California Public Utilities Commission	LNG	Liquefied Natural Gas
CRRs	Congestion Revenue Rights	Luz del Sur	Luz del Sur S.A.A.
DOE	Department of Energy	Mississippi Hub	Mississippi Hub, LLC
DWR	Department of Water Resources	MMBtu	Million British Thermal Units (of natural gas)
Edison	Southern California Edison Company	MMcfd	Million cubic feet per day
EITF	Emerging Issues Task Force	Mobile Gas	Mobile Gas Service Corporation

GLOSSARY (CONTINUED)

MSCI	Morgan Stanley Capital International	RPS	Renewables Portfolio Standard
MW	Megawatt	SAB 107	Securities and Exchange Commission Staff Accounting Bulletin 107
Ninth Circuit Court of Appeals	U.S. Court of Appeals for the Ninth Circuit	SDG&E	San Diego Gas & Electric Company
NRC	Nuclear Regulatory Commission	Sempra Utilities	San Diego Gas & Electric Company and Southern California Gas Company
OIR	Order Instituting Rulemaking	SEPCO	Sempra Energy Production Company
OMEC	Otay Mesa Energy Center	SFAS	Statement of Financial Accounting Standards
OMEC LLC	Otay Mesa Energy Center LLC	SFP	Secondary Financial Protection
Otay Mesa VIE	Otay Mesa Energy Center LLC	SoCalGas	Southern California Gas Company
OTC	Over-the-counter	SONGS	San Onofre Nuclear Generating Station
Overthrust	Overthrust Pipeline Company	Supreme Court	United States Supreme Court
PE	Pacific Enterprises	Tangguh PSC	Tangguh PSC Contractors
PRP	Potentially Responsible Party	The Plan	Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals
PX	Power Exchange	The Prior Plan	2008 Incentive Plan of EnergySouth, Inc.
RBS	The Royal Bank of Scotland plc	Topaz	Topaz Power Partners
RBS Sempra Commodities	RBS Sempra Commodities LLP	Trust	ESOP Trust
REX	Rockies Express Pipeline	Twin Oaks	Twin Oaks Power Plant
Rockies Express	Rockies Express Pipeline LLC	USFS	United States Forest Service
ROE	Return on Equity	VaR	Value at Risk
ROR	Return on Rate Base	VIE	Variable Interest Entity

Exhibit 21.1
Sempra Energy
Schedule of Significant Subsidiaries
at December 31, 2008

Subsidiary	State of Incorporation or Other Jurisdiction
Enova Corporation	California
Pacific Enterprises	California
Pacific Enterprises International	California
San Diego Gas & Electric Company	California
Sempra Commodities, Inc.	Delaware
Sempra Energy International	California
Sempra Generation	California
Sempra Global	California
Southern California Gas Company	California

**Exhibit 21.2
Pacific Enterprises
Schedule of Significant Subsidiaries
at December 31, 2008**

Subsidiary	State of Incorporation or Other Jurisdiction
Southern California Gas Company	California

CERTIFICATION

I, Donald E. Felsing, certify that:

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

February 24, 2009

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

CERTIFICATION

I, Mark A. Snell, certify that:

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

February 24, 2009

/S/ Mark A. Snell
Mark A. Snell
Chief Financial Officer

CERTIFICATION

I, Debra L. Reed, certify that:

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

February 24, 2009

/S/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

CERTIFICATION

I, Robert M. Schlax, certify that:

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

February 24, 2009

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

CERTIFICATION

I, Debra L. Reed, certify that:

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

February 24, 2009

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

CERTIFICATION

I, Robert M. Schlax, certify that:

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

February 24, 2009

/S/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

CERTIFICATION

I, Debra L. Reed, certify that:

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

February 24, 2009

/S/ Debra L. Reed

Debra L. Reed
Chief Executive Officer

CERTIFICATION

I, Robert M. Schlax, certify that:

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

February 24, 2009

/S/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

Statement of Chief Executive Officer

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

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2008 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2009

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

Statement of Chief Financial Officer

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

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2008 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2009

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

Statement of Chief Executive Officer

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

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2008 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2009

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

Statement of Chief Financial Officer

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

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2008 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2009

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

Statement of Chief Executive Officer

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

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2008 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2009

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

Statement of Chief Executive Officer

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

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2008 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2009

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

Statement of Chief Financial Officer

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

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2008 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2009

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-153425 on Form S-3 and 333-56161, 333-50806, 333-49732, 333-121073, 333-128441, 333-151184 and 333-155191 on Form S-8 of our report dated February 19, 2009 (which report expresses an unqualified opinion), relating to the consolidated financial statements of RBS Sempra Commodities LLP and subsidiaries incorporated by reference in this Annual Report on Form 10-K of Sempra Energy for the year ended December 31, 2008.

/s/ DELOITTE & TOUCHE LLP
New York, New York
February 23, 2009

RBS Sempra Commodities LLP and Subsidiaries

Consolidated Financial Statements as of December 31,
2008 and for the Period From April 1, 2008 (Date of
Commencement) to December 31, 2008, and Report of
Independent Registered Public Accounting Firm

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members of
RBS Sempra Commodities LLP and Subsidiaries:

We have audited the accompanying consolidated statement of financial condition of RBS Sempra Commodities LLP and subsidiaries (the "Partnership") as of December 31, 2008, and the related consolidated statements of income, cash flows, and changes in members' capital, for the period from April 1, 2008 (date of commencement) to December 31, 2008. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with generally accepted auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of RBS Sempra Commodities LLP and subsidiaries as of December 31, 2008, and the results of their operations and their cash flows for the period from April 1, 2008 (date of commencement) to December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

February 19, 2009

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2008

(Dollars in thousands)

ASSETS

Cash and cash equivalents	\$190,182
Trading assets	5,833,511
Commodities owned	1,162,559
Receivables from affiliates — net	924,715
Investments in marketable securities	54,125
Finance lease receivable	192,328
Prepaid and other assets	355,682
Property, plant and equipment — net	144,889
Goodwill	371,418
	<hr/>

TOTAL \$9,229,409

LIABILITIES AND MEMBERS' CAPITAL

LIABILITIES:

Short-term borrowings	\$320,236
Trading liabilities	4,521,149
Accounts payable and accrued liabilities	737,781
Payables to affiliates	1,433
	<hr/>

Total liabilities 5,580,599

MEMBERS' CAPITAL 3,648,810

TOTAL \$9,229,409

See notes to consolidated financial statements.

RBS SEMPra COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
FOR THE PERIOD FROM APRIL 1, 2008 (DATE OF COMMENCEMENT)
TO DECEMBER 31, 2008
(Dollars in thousands)

REVENUES:	
Fee income	\$1,397,376
Principal transactions — net	639,708
Interest and other income	<u>13,805</u>
Total revenues	<u>2,050,889</u>
EXPENSES:	
Compensation and benefits	613,871
Storage and transportation	597,317
Facilities and communications	61,811
Brokerage, execution and clearing	59,656
Professional fees	27,612
Interest expense	23,867
Other expenses	<u>55,985</u>
Total expenses	<u>1,440,119</u>
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES AND EQUITY IN LOSS OF UNCONSOLIDATED AFFILIATES — Net of provision for income taxes	610,770
PROVISION FOR INCOME TAXES	16,418
EQUITY IN LOSS OF UNCONSOLIDATED AFFILIATES — Net of provision for income taxes	<u>(2,549)</u>
NET INCOME	<u>\$591,803</u>

See notes to consolidated financial statements.

RBS SEMpra COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM APRIL 1, 2008 (DATE OF COMMENCEMENT)
TO DECEMBER 31, 2008

(Dollars in thousands)

OPERATING ACTIVITIES:

Net income	\$591,803
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	63,652
Deferred taxes	3,101
Equity in loss of unconsolidated affiliates — net of provision for income taxes	2,549
Net change in:	
Trading assets	50,251
Commodities owned	459,139
Trading securities	15,931
Prepaid and other assets	(190,696)
Receivables from affiliates — net	(933,723)
Commodities sold under agreements to repurchase	(502,136)
Trading liabilities	317,389
Payables to affiliates	1,433
Accounts payable and accrued liabilities	259,559
Net cash provided by operating activities	<u>138,252</u>

INVESTING ACTIVITIES:

Purchases of investments in available-for-sale securities	(3,348)
Purchase of property, plant and equipment	(56,967)
Acquisition of subsidiaries — net of cash acquired	(2,372,273)
Increase in finance lease receivable	(173,145)
Purchase of other investments	(15,000)
Cash used in investing activities	<u>(2,620,733)</u>

FINANCING ACTIVITIES:

Net decrease in short-term borrowings	(431,325)
Members' capital contributions	3,265,000
Distributions paid to members	(161,012)
Net cash provided by financing activities	<u>2,672,663</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	190,182
CASH AND CASH EQUIVALENTS — April 1, 2008	<u>--</u>
CASH AND CASH EQUIVALENTS — December 31, 2008	<u>\$190,182</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION —

Cash paid during the period for income taxes	<u>\$47,563</u>
--	-----------------

See notes to consolidated financial statements.

RBS SEMBRA COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' CAPITAL FOR THE PERIOD FROM APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008

(Dollars in thousands)

	Comprehensive Income (Loss)	Members' Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Capital
BALANCE — April 1, 2008		\$ --	\$ --	\$ --
Members' capital contributions		3,265,000	--	3,265,000
Net income	\$591,803	591,803	--	591,803
Other comprehensive income (loss) — net of tax:				
Net unrealized loss on available-for-sale securities	(43,765)	--	(43,765)	(43,765)
Net unrealized loss on SFAS 133 cash flow hedging activities	<u>(3,216)</u>	--	<u>(3,216)</u>	<u>(3,216)</u>
Comprehensive income	<u>\$544,822</u>			
Distributions paid to Members		<u>(161,012)</u>	--	<u>(161,012)</u>
BALANCE — December 31, 2008		<u>\$3,695,791</u>	<u>(\$46,981)</u>	<u>\$3,648,810</u>

See notes to consolidated financial statements.

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008 AND FOR THE PERIOD FROM APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008

1. NATURE OF OPERATIONS

The Partnership engages in physical and derivative trading and marketing activities principally in natural gas, electricity, petroleum, petroleum products, base metals and other commodities with domestic and foreign corporations, financial institutions, multinational organizations, sovereign entities and end users. The Partnership's operations are subject to regulation by the Financial Services Authority, the New York Mercantile Exchange, the Commodity Futures Trading Commission, the Federal Energy Regulatory Commission (FERC), the London Metals Exchange, NYSE Euronext, the U.S. Federal Reserve Bank, and the National Futures Association.

2. FORMATION AND ORGANIZATION OF THE PARTNERSHIP

On July 9, 2007, Sempra Energy (Sempra) and The Royal Bank of Scotland Group plc (RBS) (collectively the Members) entered into an agreement to form a partnership, RBS Sempra Commodities LLP (the Partnership or RBSSC), to purchase and operate Sempra's commodity trading and marketing businesses. Pursuant to a Master Formation and Equity Interest Purchase Agreement, the Partnership was formed as a United Kingdom limited liability partnership, and Sempra and RBS made initial equity investments of \$1,600 million and \$1,665 million respectively. The Partnership concurrently purchased Sempra's commodity trading and marketing subsidiaries (collectively, the Sempra Energy Trading Companies or SET Companies) at a price of \$2,754 million (after deducting certain expenses paid by Sempra in terminating pre-existing contractual arrangements). The formation of the Partnership and the purchase of the SET Companies was effected on April 1, 2008 (Closing Date or Date of Commencement).

The cost of the acquisition of \$2,754 million was allocated to the assets acquired and liabilities assumed based on their respective fair values. The fair value of net assets acquired, including certain intangible assets, was \$2,383 million and the excess purchase price of \$371 million has been allocated to goodwill.

The formation and operation of the Partnership is subject to various agreements between the Members including primarily the Master Formation and Equity Interest Purchase Agreement, the Limited Liability Partnership Agreement and the Commodities Trading Activities Master Agreement. These agreements include provisions which dictate, among other matters, the rights and responsibilities of the Members, capital contributions by the Members, the formation and termination of the Partnership, the profit distributions to the Members, the execution of commodities trading activities by the joint venture, and the governance of the Partnership. As outlined in the Limited Liability Partnership Agreement the Partnership intends to distribute all of its net income annually to the Members.

The Partnership is governed by a board of seven directors, three appointed by Sempra and four by RBS. The consent of Sempra will be required before the Partnership may take certain significant actions, including materially changing the scope of the Partnership's businesses, issuing credit support outside the ordinary course, incurring certain types of indebtedness and entering into agreements of significant size or duration, all as more fully specified in the Limited Liability Partnership Agreement. The Partnership is fully consolidated by RBS.

On December 1, 2008, the UK Government through HM Treasury became the ultimate controlling party of the Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Partnership and entities controlled by the Partnership as of December 31, 2008. All material intercompany balances and transactions have been eliminated.

The Partnership has a controlling financial interest in an entity if it owns a majority of the voting interests of the entity or is considered the primary beneficiary of the entity. Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Consolidation of Variable Interest Entities, an interpretation of ARB 51*, (FIN No. 46(R)), as revised, requires that a variable interest entity (VIE) be consolidated by its primary beneficiary, who is the party subject to the majority of the expected losses or the majority of the expected residual returns of the VIE, or both. The Partnership assesses its involvement with VIEs to determine whether consolidation of VIEs is required. All facts and circumstances are taken into consideration when determining whether the Partnership has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE.

Trading Instruments — Trading assets and Trading liabilities are recorded on a trade-date basis. These amounts include unrealized gains and losses from exchange-traded futures and options and over-the-counter (OTC) swaps, forwards and options. Unrealized gains and losses on OTC derivative transactions reflect amounts which would be received from or paid to a third party upon liquidation of these contracts under current market conditions. Unrealized gains and losses on these OTC derivative transactions are reported separately as assets and liabilities unless a legal right of setoff exists under enforceable master netting agreements pursuant to FASB interpretation No. 39 *Offsetting of amounts Related to Certain Contracts* (FIN 39). All derivative Trading assets and Trading liabilities are carried at fair value. Principal transaction revenues are recognized on a trade-date basis and include realized gains and losses and the net change in unrealized gains and losses.

Futures and exchange-traded option transactions are recorded as contractual commitments on a trade-date basis and are carried at fair value. Commodity swaps and forward transactions are accounted for as contractual commitments on a trade-date basis and are carried at fair value derived from dealer quotations and underlying commodity exchange quotations. OTC options purchased or written are recorded on a trade-date basis and are carried at fair value.

Fair values for trading instruments not quoted in an active market are determined using appropriate valuation techniques, including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing trading instruments. These valuation techniques utilize, among other things, available market information, including current interest rates, commodity prices and volatility rates, as applicable. Where market information is not available or where management deems appropriate, current interest rates, commodity prices and volatility rates are estimated by reference to current market levels. Given the nature, size and timing of transactions, estimated values may differ from realized values.

Cash and Cash Equivalents — Cash and cash equivalents are comprised of cash on hand, demand deposits and other short-term highly liquid investments (with original maturities of three months or less)

which are subject to an insignificant risk of changes in value. Cash paid for interest approximates interest expense.

Investments in Marketable Securities — Investments in marketable securities are accounted for on a specific identification basis and are reported at fair value, in accordance with Statement of Financial Accounting Standards (SFAS) No. 115 *Accounting for Certain Investments in Debt and Equity Securities* including reviews for impairment. Unrealized gains and losses on available-for-sale securities are included in Accumulated Other Comprehensive Income (Loss) (AOCI), net of taxes. Unrealized gains and losses on trading securities are recorded in income.

Investments in Unconsolidated Affiliates — Investments in affiliated companies are accounted for under the equity method when the Partnership has an ownership interest between 20% and 50% and is deemed to have significant influence but not control. The Partnership's percentage ownership of the affiliates' net assets are included in Prepaid and other assets, and are adjusted for the Partnership's share of each investee's earnings or losses, dividends and foreign currency translation effects, if any. Equity earnings or losses are recorded net of income tax recorded by the affiliate as a separate caption on the Consolidated Statement of Income.

Commodities Owned — Commodities owned are recorded on a trade-date basis. Natural gas, oil and other non-base metal physical commodities are carried on a lower-of-cost-or-market basis. When a specific contract cost of new inventory cannot be determined, the Partnership uses the appropriate market index at the time of purchase as the cost basis.

Property, Plant and Equipment — Property, plant and equipment is carried at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over the asset's estimated useful life, generally three to five years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the remaining term of the lease. On a regular basis the Partnership assesses whether there is any indication that its property, plant and equipment is impaired.

Goodwill — Goodwill is the excess of the cost of an acquisition over the Partnership's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition and is recognized at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes indicate that it might be impaired.

Prepaid and Other Assets — Prepaid and other assets primarily consist of transactional tax deposits related to goods and services taxes and value added taxes, net deferred tax assets, interest receivables, deposits, expenses paid in advance, certain beneficial contracts and miscellaneous other investments. Beneficial contracts are amortized over their estimated useful lives.

Fee Income — Fee income includes fees earned by the Partnership while engaged in certain commodities trading activities, in its capacity as agent for RBS as dictated by the various partnership agreements. This includes income derived from realized and unrealized gains and losses, net of associated execution costs, including interest, associated with the trading activities of the Partnership.

Income Taxes — The Partnership is a Limited Liability Partnership, incorporated under the Limited Liability Partnership Act of 2000 of the United Kingdom and the regulations made thereunder. For U.S. purposes the Partnership elected to be treated as a partnership for federal, state and local filings. Each member is responsible for reporting its income or loss based on its share of the income and expenses. Certain subsidiaries of the Partnership are subject to tax in foreign jurisdictions where such subsidiary entity may be treated as a corporation under local tax law.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported market value of assets and liabilities at the date and reporting period of the financial statements. The most important of the estimates and assumptions relate to fair value measures and the accounting for goodwill. The recorded values of these assets and liabilities may be more or less than values that might be realized, if the Partnership were to sell or close out the positions prior to maturity.

Foreign Currency Transactions — Foreign currency transactions are translated into U.S. dollars at the then current exchange rates during the reporting period. Assets and liabilities denominated in foreign currencies have been converted into U.S. dollars at year-end exchange rates. Gains and losses resulting from foreign currency transactions are included in Principal transactions, net.

Recently Issued Accounting Pronouncements — In February 2008, the FASB issued FASB Staff Position FAS No. 140-3 *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* (FSP 140-3). FSP 140-3 provides guidance on accounting for transfers of financial assets and associated financing transactions and requires an initial transfer of a financial asset and a repurchase financing entered into contemporaneously, or in contemplation of the initial transfer, to be evaluated together as a linked transaction under SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement 125* (SFAS 140), unless certain criteria are met. If certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction under SFAS 140. FSP 140-3 is effective for fiscal years beginning after November 15, 2008 and will be applied only to new transactions entered into after the date of adoption. The Partnership does not expect the adoption of FSP 140-3 to have a material impact on the Partnership's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 *Disclosures about Derivative Instruments and Hedging Activities — an Amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 expands the disclosure requirements about an entities derivative instruments and hedging activities. The disclosure provisions of SFAS 161 apply to all entities with derivatives subject to Statement of Financial Accounting Standards No. 133 *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). The standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. RBSBC will adopt the provisions of this standard on January 1, 2009. Since SFAS 161 requires only additional disclosures concerning derivatives and hedging activities, adoption will not affect the Partnership's consolidated financial statements.

In October 2008, the FASB issued FASB Staff Position FAS No. 157-3 *Determining the Fair Value of a Financial Asset When the Market for The Asset is Not Active* (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example that illustrates the key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 was effective upon issuance. The Partnership has adopted FSP FAS 157-3 and it did not have a material impact on the Partnership's consolidated financial statements.

In December 2008, the FASB issued FASB Staff Position FAS No. 140-4 and FIN 46(R)-8 *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* (FSP FAS 140-4 and FIN 46(R)-8). FSP FAS 140-4 and FIN 46(R)-8 require enhanced disclosures about transfers of financial assets and interests in variable interest entities. FSP FAS 140-4 and FIN 46(R)-8 are effective for fiscal years ending after December 15, 2008. The Partnership has adopted FSP FAS 140-4 and FIN 46(R)-8.

4. TRANSACTIONS WITH AFFILIATES

In the normal course of business the Partnership conducts transactions with affiliated companies.

In accordance with the Master Formation and Equity Interest Purchase Agreement, and provided the required consents are obtained, RBS will assume, and the SET Companies will novate, the rights and obligations of certain contractual arrangements of the SET Companies that existed prior to the formation of the Partnership. This will include various trading agreements and other material business contracts as defined. To the extent that such contracts have not been novated to RBS, RBS will assume the risk and rewards of ownership of those contracts through the execution of market risk index swaps with the various subsidiary companies of the Partnership. The market risk index swaps will effectively transfer the risks and rewards, related to market risk, of the contracts, along with the associated income and expenses, from certain SET Companies to RBS. However, all such risks, rewards, income and related expenses are for the Partnership's account.

For novated counterparties the Partnership acts as agent for RBS and receives fee income from RBS. This fee income represents realized and unrealized gains and losses, net of execution costs associated with these activities.

The performance of certain non-novated counterparts is guaranteed by Sempra. RBS has agreed to indemnify Sempra for any associated claims under Sempra's guarantee.

The Partnership earned interest income and incurred interest expenses with RBS related to the Partnership's operating and investing activities. The Partnership was also allocated costs from RBS related to compensation and benefits, insurance, and professional fees for services provided.

The following table summarizes the Partnership's assets and liabilities as of December 31, 2008 and the Partnership's revenues and expenses for the period from April 1, 2008 (date of commencement) to December 31, 2008 with affiliated companies (in thousands):

Assets:	
Trading assets	\$139,850
Receivables from affiliates — net	924,715
Liabilities:	
Trading liabilities	399,720
Payables to affiliates	1,433
Revenues and expenses:	
Fee income	1,397,376
Principal transactions — net	(2,477)
Interest income	5,783
Interest expense	13,895
RBS allocated expenses	2,669

5. TRADING ASSETS AND TRADING LIABILITIES

As of December 31, 2008, Trading assets and Trading liabilities are comprised of the following (in thousands):

Trading assets:	
Unrealized gains on swaps, forwards and options	\$3,376,475
Due from commodity clearing brokers	801,114
Due from trading counterparties	2,960,366
Less — effect of netting	<u>(1,304,444)</u>
	<u>\$5,833,511</u>
Trading liabilities:	
Unrealized losses on swaps, forwards and options	\$3,647,342
Due to trading counterparties	2,178,251
Less — effect of netting	<u>(1,304,444)</u>
	<u>\$4,521,149</u>

6. DERIVATIVES AND HEDGING ACTIVITIES

The Partnership utilizes derivative instruments, which include futures, forwards, swaps and options, to reduce its exposure to unfavorable changes in market prices.

The Partnership accounts for derivative transactions in accordance with SFAS 133, as amended, and recognizes derivative instruments as either assets or liabilities in the Consolidated Statement of Financial Condition and measures those instruments at fair value. The changes in fair value of a majority of the derivative transactions of the Partnership are currently presented, in all material respects, as a component of Principal transactions, net in the Consolidated Statement of Income. The accounting for changes in the fair value of other derivatives depends on the intended use of the derivative and the resulting designation.

Hedge accounting treatment can be applied when certain criteria are met. For a derivative instrument designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting gain or loss on the hedged item of the risk being hedged. For a derivative being designated as a cash flow hedge, the effective portion of the derivative gain or loss is initially reported as a component of AOCI and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion (excess derivative gain or loss) is reported in earnings immediately.

For fair value hedges, the Partnership primarily uses derivative instruments to hedge its commodity inventories. In cash flow hedge relationships, the Partnership uses certain derivative instruments primarily to hedge natural gas purchases and sales related to transportation and storage capacity arrangements. A net derivative unrealized loss of approximately \$3 million is included in AOCI for 2008. Derivative unrealized gains included in AOCI expected to affect earnings in 2009 are approximately \$254 thousand. Due to volatility and uncertainty in the commodity markets, the corresponding value in AOCI will likely change prior to its reclassification to earnings. As of December 31, 2008, the maximum tenor of derivative instruments that hedge forecasted purchase and sales transactions is 7 years.

For instruments designated as hedges, hedge ineffectiveness, determined in accordance with SFAS 133, had a positive impact on revenue of approximately \$18 million for the period from April 1, 2008 (date of commencement) to December 31, 2008. Ineffectiveness relating to fair value hedges resulted in a positive impact on revenue of approximately \$5 million, while the ineffective portion of cash flow hedges resulted in a positive impact on revenue of approximately \$13 million. These ineffectiveness gains are recorded in Principal transactions, net in the Consolidated Statement of Income and then are transferred to Fee income through the market risk index swap.

7. FAIR VALUE OF ASSETS AND LIABILITIES

The Partnership applies SFAS No. 157, *Fair Value Measurements* (SFAS 157) when measuring certain assets and liabilities that are carried at fair value. As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Partnership utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Partnership primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Partnership utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Partnership is able to classify fair value balances based on the observability of those inputs. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives and listed equities.

Level 2 — Quoted prices in active markets are not available, however, pricing inputs are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as OTC forwards, options and repurchase agreements.

Level 3 — Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. At each balance sheet date, the Partnership performs an analysis of all instruments subject to SFAS 157 and includes in Level 3 all of those whose fair value is based on significant unobservable inputs.

The following tables set forth by level within the fair value hierarchy the Partnership's Trading assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008. As required by SFAS 157, Trading assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Fair Value of Assets and Liabilities Measured on a Recurring Basis
As of December 31, 2008
(in thousands)

Assets	Level 1	Level 2	Level 3	Total (1)
Exchange-traded derivative instruments	\$1,533,252	\$993,727	\$ --	\$2,526,979
OTC derivative trading instruments	--	2,834,745	541,730	3,376,475
Commodities owned	--	1,152,716	--	1,152,716
Available-for-sale securities	21,322	2,010	7,111	30,443
Trading securities	210	--	--	210
Total	\$1,554,784	\$4,983,198	\$548,841	\$7,086,823

Liabilities	Level 1	Level 2	Level 3	Total (1)
Exchange-traded derivative instruments	\$94,660	\$10,299	\$ --	\$104,959
OTC derivative trading instruments	--	3,581,377	65,965	3,647,342
Total	\$94,660	\$3,591,676	\$65,965	\$3,752,301

(1) Amounts exclude the effects of netting.

Exchange-traded derivative instruments, which are cash settled during the life of the transaction, are classified as part of Trading Assets on the Consolidated Statement of Financial Condition. The table above does not include certain commodities owned that are carried on a lower-of-cost-or-market basis. The table does include a portion of commodities owned for which fair value hedge accounting is applied.

	As of December 31, 2008 (in thousands)
Commodities owned:	
Per Consolidated Statement of Financial Condition	\$1,162,559
Less amounts recorded at lower-of-cost-or-market	9,843
Per recurring fair value measures table	<u>\$1,152,716</u>

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

Trading derivatives and commodity trading inventories reflect positions held by the Partnership. The fair value of exchange-traded derivative contracts, which include futures and exchange-traded options, is generally based on unadjusted quoted prices in active markets and are classified within Level 1. In

addition, certain OTC-cleared options and swap contracts are included in Level 1, as the fair values of these items are based on unadjusted quoted prices in active markets. Some exchange-traded derivatives are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets. In such cases, these exchange-traded derivatives are classified within Level 2. OTC derivative trading instruments include swaps, forwards, options and complex structures that are valued at fair value and may be offset with similar positions in exchange-traded markets. In certain instances, these instruments may utilize models to measure fair value. Generally, the Partnership uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs (i.e., inputs derived principally from or corroborated by observable market data by correlation or other means.) Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain OTC derivatives trade in less active markets with a lower availability of pricing information. In addition, complex or structured transactions can introduce the need for internally-developed model inputs that might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.

The following table sets forth a reconciliation of changes in the fair value of net trading derivatives classified as Level 3 in the fair value hierarchy (in thousands):

Balance as of April 1, 2008	\$379,321
Realized and unrealized gains	(57,557)
Purchases, settlements, sales and issuances	150,140
Transfers in and/or out of Level 3	<u>10,972</u>
Balance as of December 31, 2008	<u>\$482,876</u>
Change in unrealized gains (losses) relating to instruments still held as of December 31, 2008	<u>\$379,854</u>

Gains and losses (realized and unrealized) for Level 3 items are included primarily in Principal transactions, net.

Transfers in and/or out of Level 3 represent existing assets or liabilities that were either previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period.

Given the nature, size, timing and tenor of certain complex transactions, changing one or more of the less observable inputs within the valuation model, may materially change the values used by management.

8. TRADING ACTIVITY AND RISK MANAGEMENT

The Partnership derives a substantial portion of its revenue from market-making and trading activities, as an agent for RBS and a principal, in natural gas, electricity, petroleum, petroleum products, base metals and other commodities. It quotes bid and offer prices to other market makers and end users. It

also earns trading profits as a dealer by structuring and executing transactions that permit its counterparts to manage their risk profiles. In addition, it takes positions in markets based on the expectation of future market conditions. These positions may be offset with similar positions or may be offset by positions taken in exchange-traded markets. These positions include options, forwards, futures and swaps. These financial instruments represent contracts with counterparts whereby payments are linked to or derived from market indices or on terms predetermined by the contract, which may or may not be financially settled by the Partnership.

Forward and future transactions are contracts for delayed delivery of commodity instruments in which the counterpart agrees to make or take delivery at a specified price. Derivative commodity swap transactions may involve the exchange of fixed and floating payment obligations without the exchange of the underlying commodity. For additional information about derivatives and related hedging activities see Note 6 — Derivatives and Hedging Activities.

Options, which are either exchange-traded or directly negotiated between counterparts, provide the holder with the right to buy from or sell to the writer an agreed amount of commodity at a specified strike price within, or at, a specified period of time. As a writer of options, the Partnership receives an option premium then manages the risk of an unfavorable change in the value of the underlying commodity.

Market risk arises from the potential for changes in the value of physical and financial instruments resulting from fluctuations in prices and basis for natural gas, electricity, petroleum, petroleum products, base metals and other commodities. Market risk is also affected by changes in volatility and liquidity in markets in which these instruments are traded. The Partnership has established position and stop-loss limits for each line of business to monitor its market risk. Traders are required to maintain positions within these market risk limits. The position limits are monitored during the day by senior management of the Partnership. Reports which present each trading book's position and the prior day's profit and loss are reviewed daily by traders and the Partnership's senior management.

The Partnership also uses Value-at-Risk (VaR) to measure its exposure to market risk. VaR is an estimate of the potential loss on a position or portfolio of positions over a specified holding period, based on normal market conditions and within a given statistical confidence interval. The Partnership has adopted the variance/covariance methodology in its calculation of VaR, and uses both the 95-percent and 99-percent confidence intervals. Holding periods are specific to the types of positions being measured, and are determined based on the size of the position or portfolios, market liquidity, tenor and other factors. Historical volatilities and correlations between instruments and positions are used in the calculation. Based upon these and other risk management procedures, the Partnership's senior management determines whether to adjust the Partnership's market risk profile.

The Partnership's credit risk from physical and financial instruments as of December 31, 2008 is represented by the positive fair value of financial instruments after consideration of netting and collateral. Credit risk disclosures, however, relate to the net losses that would be recognized if all counterparts failed completely to perform their obligations. Options written do not expose the Partnership to credit risk. Exchange-traded futures and options are not deemed to have significant credit exposure as the exchanges guarantee that every contract will be properly settled on a daily basis.

The following table approximates the counterparty credit quality and exposure expressed in terms of net replacement value as determined by rating agencies or by internal models intended to approximate rating agency determinations. These exposures are net of collateral in the form of customer margin and/or letters of credit of \$955 million:

Counterparty credit quality (in thousands):	
AAA	\$ 20,467
AA	338,739
A	692,580
BBB	556,036
Below investment grade	882,963
Exchanges	801,114
	<u>\$3,291,899</u>

The Partnership monitors and controls its credit risk exposures through various systems and processes, which evaluate the Partnership's credit risk through credit approvals and limits. To manage the level of credit risk the Partnership enters into netting agreements whenever possible and, where appropriate, obtains collateral. Netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterpart in the event of default.

The Partnership provides committed letters of credit issued by various banks to counterparts in lieu of securities or cash to satisfy various collateral and margin deposit requirements (see Note 13 – Borrowings and Credit Facilities).

9. INVESTMENTS IN MARKETABLE SECURITIES

Available-for-Sale Securities — The Partnership had equity securities of \$53.9 million categorized as available-for-sale securities, included in Investments in marketable securities as of December 31, 2008. Gross unrealized gains were \$139 thousand and gross unrealized losses were \$47.6 million. During 2008, the Partnership purchased \$2.0 million and novated to RBS \$30.3 million of available-for-sale securities. The fair value of securities in an unrealized loss position at December 31, 2008 was \$37.0 million. The unrealized losses were primarily caused by temporary declines in the market values of the securities. The Partnership does not consider these investments to be other-than-temporarily impaired as of December 31, 2008.

Trading Securities — As of December 31, 2008, the Partnership had \$210 thousand of securities classified as trading securities and included in Investments in marketable securities. The Partnership recorded unrealized losses of \$654 thousand related to trading securities for the period from April 1, 2008 (date of commencement) to December 31, 2008. During 2008 the Partnership sold \$2.5 million and novated to RBS \$2.0 million of trading securities.

10. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

As of December 31, 2008, the Partnership owned 30% of Gateway Energy Services Corporation (Gateway), which commenced operations on May 6, 1997. Gateway is a retail marketer of natural gas and electricity, serving residential, commercial, and light industrial customers primarily in the northeast, mid-west, and mid-atlantic regions of the U.S. As of December 31, 2008 the Partnership owned 25% of Great Eastern Energy Co. LLC (GEEC). GEEC supplies natural gas and electricity to commercial and industrial customers within major markets across the United States. The carrying value of these investments is \$34.1 million as of December 31, 2008 and is included in Prepaid and other assets.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation. These assets consist of leasehold improvements and office equipment, computer equipment (which includes computer hardware and software) and machinery and equipment. Property, plant and equipment by major functional categories are as follows (in thousands):

	Cost	Accumulated Depreciation	Book Value
Leasehold improvements and office equipment	\$115,620	\$29,485	\$86,135
Computer equipment	184,281	127,948	56,333
Machinery and equipment	7,625	5,204	2,421
	<u>\$307,526</u>	<u>\$162,637</u>	<u>\$144,889</u>

12. FINANCE LEASE RECEIVABLE

In connection with a transaction entered into during the year, the Partnership entered into a sales type lease that is recorded in the statement of financial condition as a finance lease receivable. The balance at December 31, 2008 is as follows (in thousands):

Gross receivable	\$224,254
Unearned income	(146,926)
Unguaranteed residual value	115,000
Finance lease receivable — net	<u>\$192,328</u>

Contractual maturities of the gross receivable as of December 31, 2008 were as follows (in thousands):

2009	\$9,945
2010	11,691
2011	14,586
2012	15,000
2013	13,268
Thereafter	159,764
	<u>\$224,254</u>

13. BORROWINGS AND CREDIT FACILITIES

Certain subsidiaries of the Partnership have a \$1.72 billion, five-year committed syndicated revolving credit facility (consisting of borrowings, letters of credit and other credit support accommodations) maturing in September 2010. The amount of credit available under the facility is limited to the amount of a borrowing base consisting of receivables, inventories and other assets of a subsidiary of the Partnership that secure the credit facility and are valued for purposes of the borrowing base at varying percentages of current market value. Extensions of credit are guaranteed by Sempra Energy subject to a maximum guarantee liability of 20% of the lenders' total commitments under the facility. The facility requires a subsidiary of the Partnership to meet certain financial tests at the end of each quarter, including minimum working capital, leverage ratio, senior debt to tangible net worth ratio, and minimum net worth and tangible net worth tests. It also imposes certain other limitations on the subsidiary and certain affiliates, including certain limitations on other indebtedness, capital expenditures, liens, transfers of assets, investments, loans, advances, dividends, other distributions, modifications of risk-management policies and transactions with affiliates. As of December 31, 2008, the facility had \$1.2 billion of letters of credit and no borrowings outstanding. In addition to commitment fees, these borrowings accrue interest at market rates based on a base rate or libor plus a fixed margin. In May 2008, the facility was amended to permit the implementation of the transfer of certain businesses of the Partnership to RBS and to ensure that after such transfer, the Partnership businesses would continue to be able to utilize the credit facility. In addition, there were adjustments to covenants and the margin applicable to loans.

Certain subsidiaries of the Partnership have a \$500 million, three-year revolving credit facility with an affiliate maturing in May 2009 that provides for borrowings and the issuance of letters of credit and bank guarantees. Extensions of credit under the facility are guaranteed by Sempra Energy. At December 31, 2008, the facility had outstanding \$174 million of letters of credit and \$320 million of short-term borrowings. These borrowings accrue interest at market rates based on libor plus a fixed margin.

RBS has a loan facility for the benefit of the Partnership's subsidiaries under which loans of up to \$500 million are available through the sale by the lender of asset-backed commercial paper notes to capital markets investors. RBS can elect to require the lender to fund the loans by the sale of commercial paper notes to the Federal Reserve Bank of New York under its Commercial Paper Funding Facility, for terms of three months, through April 30, 2009 with a final maturity of July 30, 2009. As of December 31, 2008 there were no short-term borrowings outstanding against this facility

At December 31, 2008, RBS, on behalf of itself and certain subsidiaries of the Partnership, maintained \$927 million in various-uncommitted lines of credit. At December 31, 2008, these facilities had outstanding \$756 million of letters of credit and no short-term borrowings. ~~These facilities~~ exclude a line of credit provided by RBS to subsidiaries of the Partnership as well as loans made by RBS to the Partnership (or its subsidiaries) pursuant to its obligation to lend cash and other working capital to the Partnership as necessary to fund all of its ongoing operating expenses, to provide capital to the Partnership to support the trading activities of its subsidiaries at a level prevailing as of April 1, 2008, to support the business plan of the Partnership, and to support its reasonable growth.

14. INCOME TAXES

The Partnership is a Limited Liability Partnership, incorporated under the laws of the United Kingdom and for U.S. purposes has elected to be treated as a Partnership for Federal, State and Local filings. The income or loss applicable to the operations of the Partnership is includable in the U.S. income tax returns of the Members. Certain subsidiaries of the Partnership are subject to tax in foreign jurisdictions where such subsidiary is treated as a corporation under local tax laws.

The provision for income taxes is summarized below (in thousands):

Current — foreign	\$13,317
Deferred — foreign	3,101
Total provision for income taxes	<u>\$16,418</u>

As of December 31, 2008, the Partnership has a net deferred tax asset of \$3.8 million.

The provision for income taxes varies from the federal income tax rate of 35% primarily because the entity is treated as a partnership for federal and state tax purposes and the income or loss applicable to its operations is included in the income tax returns of the Members.

As a result of the organization of the Partnership (see Note 2 — Formation and Organization of the Partnership), any tax liability arising from the Partnership's operations prior to the effective date of the joint venture will be borne by Sempra. The Partnership commenced on April 1, 2008 and therefore the current year ended December 31, 2008 is the only year open under statute for examination for U.S. Federal, State and local tax returns. The statute of limitations for other material foreign tax returns remains open for 1995 forward.

15. EMPLOYEE BENEFIT PLANS

The Partnership's employees participate in various benefit plans, including a noncontributory cash accumulation plan and a defined contribution savings plan (401(k) plan). Included in Compensation and benefits is approximately \$10.7 million of expenses related to these plans.

16. COMMITMENTS AND CONTINGENCIES

Minimum non-cancelable lease commitments for office facilities, exclusive of real estate taxes and other expenses are as follows (in thousands):

2009	\$28,959
2010	22,625
2011	15,630
2012	11,752
2013	10,142
Thereafter	44,266
	<u>\$133,374</u>

Office leases, which expire at various dates through 2024, contain provisions for escalation based on certain cost increases incurred by the lessors. Rent expense for the period from April 1, 2008 (date of commencement) to December 31, 2008 was \$9.4 million.

As part of its normal business, the Partnership enters into various fixed-price non-cancelable commitments to purchase or sell transportation and storage capacity. These commitments are recognized as performed.

Certain claims, suits and allegations that arise in the ordinary course of business have been filed or are pending against the Partnership. In addition, the Partnership is a respondent in a complaint proceeding initiated at the FERC concerning rates charged for short-term sales of power to the California Independent System Operator Corporation (ISO) and the California Power Exchange (PX) for power supplied during the period of October 2, 2000 through June 20, 2001. On March 26, 2003, the FERC expanded the basis for refunds by adopting a staff recommendation from a separate investigation to change the natural gas proxy component of the mitigated market-clearing price that is used to calculate refunds. The FERC released its final instructions, and ordered the ISO and PX to recalculate the precise number through their settlement models. In August 2006, the Ninth Circuit Court of Appeals (Court of Appeals) upheld the FERC's decision not to extend the refund period and held that FERC properly excluded certain bilateral transactions from the refund proceedings. However, they also held that the FERC erred in excluding certain multi-day transactions from the refund proceedings and in not considering other remedies for tariff violations that occurred prior to October 2, 2000. The Court of Appeals remanded the matter to the FERC for further proceedings. In November 2007, the Partnership and other entities filed requests for rehearing of the Court of Appeals' August 2006 decision. In August 2007, the Ninth Circuit Court of Appeals issued a decision reversing and remanding FERC orders declining to provide refunds in a related proceeding regarding short-term bilateral sales up to one month in the Pacific Northwest. The court found that some of the short-term sales between the DWR and various sellers (including the Partnership) that had previously been excluded from the refund proceeding involving sales in the ISO and PX markets in California, were within the scope of the Pacific Northwest refund proceeding. In December 2007, the Partnership and other sellers filed requests for rehearing of the Court of Appeals' August 2007 decision. It is possible that on remand, the FERC could order refunds for short-term sales to the DWR in the Pacific Northwest refund proceeding.

The Partnership has reserves for its estimated refund liability that reflect its estimate of the effect of the FERC's revision of the benchmark prices it will use to calculate refunds and other refund-related developments.

In a separate complaint filed with the FERC in 2002, the California Attorney General challenged the FERC's authority to establish a market-based rate regime, and further contended that, even if such a regime were valid, electricity sellers had failed to comply with the FERC's quarterly reporting requirements. The Attorney General requested that the FERC order refunds from suppliers. The FERC dismissed the complaint and instead ordered sellers to restate their reports. After an appeal by the California Attorney General, the Ninth Circuit Court of Appeals upheld the FERC's authority to establish a market-based rate regime, but ordered remand of the case to the FERC for further proceedings, stating that failure to file transaction-specific quarterly reports gave the FERC authority to order refunds with respect to jurisdictional sellers. In December 2006, a group of sellers petitioned the United States Supreme Court to review the Ninth Circuit Court of Appeals' decision. In June 2007, the Supreme Court declined further review of the Ninth Circuit Court of Appeals' order. On March 21, 2008, FERC issued a procedural order setting the matter for further hearings before an ALJ on remand. FERC issued a clarifying order on October 6, 2008, from which the California parties have sought rehearing. FERC is holding the ALJ hearings in abeyance pending a FERC settlement process. On remand, it is possible that the FERC could order refunds or disgorgement of profits for periods in

addition to those covered by its prior refund orders and substantially increase the refunds that ultimately may be required to be paid by the Partnership and other power suppliers.

In connection with the formation of the joint venture, Sempra has agreed to indemnify RBS and the Partnership from any liability arising out of these matters.

As of December 31, 2008, the Partnership is owed approximately \$100 million from energy sales made in 2000 and 2001 through the ISO and the PX markets. The collection of these receivables depends on several factors, including the California ISO and PX refund case. The Partnership believes adequate reserves have been recorded.

SEMPRA ENERGY
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Overview

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

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

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

SEMPRA ENERGY
UNAUDITED PRO FORMA CONDENSED STATEMENT OF CONSOLIDATED INCOME
Year ended December 31, 2008

(Dollars in millions, except per share amounts)	Pro Forma Adjustments			Pro Forma Sempra Energy
	Historical Sempra Energy	Reversal of Historical Commodity- marketing Businesses (1)(3)	Pro Forma Earnings from RBS Sempra Commodities LLP (2)(4)	
REVENUES				
Sempra Utilities	\$ 7,972	\$ --	\$ --	\$ 7,972
Sempra Global and parent	2,786	(457)	--	2,329
Total revenues	<u>10,758</u>	<u>(457)</u>	<u>--</u>	<u>10,301</u>
EXPENSES AND OTHER INCOME				
Sempra Utilities:				
Cost of natural gas	(3,244)	--	--	(3,244)
Cost of electric fuel and purchased power	(900)	--	--	(900)
Sempra Global and parent:				
Cost of natural gas, electric fuel and purchased power	(1,671)	--	--	(1,671)
Other cost of sales	(182)	133	--	(49)
Operation and maintenance	(2,536)	214	--	(2,322)
Depreciation and amortization	(687)	6	--	(681)
Franchise fees and other taxes	(312)	--	--	(312)
Gains on sale of assets	114	--	--	114
Equity earnings:				
RBS Sempra Commodities LLP	383	--	45	428
Other	37	--	--	37
Other expense, net	(54)	--	--	(54)
Interest income	45	(5)	--	40
Interest expense	(253)	12	--	(241)
Preferred dividends of subsidiaries	(10)	--	--	(10)
Income from continuing operations before income taxes and equity earnings of certain unconsolidated subsidiaries	1,488	(97)	45	1,436
Income tax expense	(438)	40	(16)	(414)
Equity earnings, net of income tax	63	(3)	--	60
Income from continuing operations	<u>\$ 1,113</u>	<u>\$ (60)</u>	<u>\$ 29</u>	<u>\$ 1,082</u>
Basic earnings per share:				
Income from continuing operations	<u>\$ 4.50</u>			<u>\$ 4.37</u>
Weighted-average number of shares outstanding (thousands)	<u>247,387</u>			<u>247,387</u>
Diluted earnings per share:				
Income from continuing operations	<u>\$ 4.43</u>			<u>\$ 4.31</u>
Weighted-average number of shares outstanding (thousands) (5)	<u>251,159</u>			<u>251,159</u>

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

Notes to Unaudited Pro Forma Condensed Statement of Consolidated Income

1. Reflects the reversal of the historical results of operations for the three months ended March 31, 2008, for the company's commodities-marketing businesses sold to the partnership.
2. Reflects pro forma earnings from the company's equity investment in the partnership as allocated pursuant to the terms of the partnership agreement for the three months ended March 31, 2008. The total pro forma earnings of the partnership were based on the historical earnings of the company's commodities-marketing businesses sold to the partnership.
3. Pro forma income tax adjustments are based on the company's statutory tax rate.
4. The pro forma income tax adjustment is based on the estimated statutory rate related to the commodities-marketing businesses.
5. Diluted earnings per share for the year ended December 31, 2008 reflects the inclusion of 3,772,000 additional shares outstanding for the dilutive effect of stock options and restricted stock awards and units.