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

(Mark One)

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

For the fiscal year ended December 31, 2006

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

For the transition period from ____________ to ____________

Commission file number 1-14201

SEMPRA ENERGY
(Exact name of registrant as specified in its charter)

California	33-0732627
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

101 Ash Street, San Diego, California 92101
(Address of principal executive offices)
(Zip Code)

(619) 696-2034
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common stock, without par value	New York

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes X No ____

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ____ No X

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

Yes ___X___ No _______

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

___X___

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

Yes _______ No ___X___

Exhibit Index on page 42. Glossary on page 48.

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2006 was $11.8 billion.

Registrant's common stock outstanding as of January 31, 2007, was 262,918,638 shares.

DOCUMENTS INCORPORATED BY REFERENCE:
Portions of the 2006 Annual Report to Shareholders are incorporated by reference into Parts I, II and IV.

Portions of the Proxy Statement prepared for the April 2007 annual meeting of shareholders are incorporated by reference into Part III.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

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

PART I

ITEM 1. BUSINESS AND RISK FACTORS

Description of Business

A description of Sempra Energy and its subsidiaries (the company) is given in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the 2006 Annual Report to Shareholders, which is incorporated by reference. The company has five separately managed reportable segments comprising Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), Sempra Commodities, Sempra Generation and Sempra Pipelines & Storage. SoCalGas and SDG&E are collectively referred to as "the Sempra Utilities."

Company Website

The company's website address is http://www.sempra.com. The company makes available free of charge through its website its 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. The charters of the audit, compensation and corporate governance committees of the company's board of directors (the board), the board's corporate governance guidelines, and the company's code of business conduct and ethics for directors and officers are posted on the company's website. Printed copies may be obtained by writing to the company's Corporate Secretary at Sempra Energy, 101 Ash Street, San Diego, CA 92101-3017.

Risk Factors

The following risk factors and all other information contained in this report should be considered carefully when evaluating the company. These risk factors could affect the actual results of the company and cause such results to differ materially from those expressed in any forward-looking statements made by or on behalf of the company. Other risks and uncertainties, in addition to those that are described below, may also impair its business operations. If any of the following risks occurs, the company's business, cash flows, results of operations and financial condition could be seriously harmed. In addition, the trading price of its 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 the company set forth in the notes to Consolidated Financial Statements and in "Management's Discus sion and Analysis of Financial Condition and Results of Operations" included in the 2006 Annual Report to Shareholders, which is incorporated by reference in this 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 California Public Utilities Commission (CPUC), which consists of five commissioners appointed by the Governor of California for staggered six-year terms, regulates the Sempra Utilities' rates (except electric transmission rates, which are regulated by the Federal Energy Regulatory Commission (FERC)) and conditions of service, sales of securities, rates of return, rates of depreciation, the uniform systems of accounts and long-term resource procurement. The CPUC conducts various reviews of utility performance (which may include reasonableness and prudency reviews of capital expenditures, natural gas and electricity procurement, and other costs, and reviews and audits of the company's records) and affiliate relationships and conducts audits and investigations into various matters which may, from time to time, result in disallowances and penalties adversely affecting earnings and cash flows. Various proceedings involving the CPUC and rel ating to the Sempra Utilities' rates, costs, incentive mechanisms, performance-based regulation and compliance with affiliate and holding company rules are discussed in the notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

For major capital programs, the Sempra Utilities may expend funds prior to receiving regulatory approval to proceed with the capital project. If the project does not receive regulatory approval or a decision is made not to proceed with the project, the company may not be able to recover the amount expended for that project.

Periodically, the Sempra Utilities' rates are approved by the CPUC based on forecasts of capital and operating costs. If the Sempra Utilities' actual capital and operating costs were to exceed the amount approved by the CPUC, it would adversely affect earnings and cash flows.

To promote efficient operations and improved productivity and to move away from reasonableness reviews and disallowances, the CPUC applies Performance-Based Regulation (PBR) to the Sempra Utilities. Under PBR, regulators require future income potential to be tied to achieving or exceeding specific performance and operating income goals, rather than relying solely on expanding utility plant to increase earnings. The three areas that are eligible for PBR rewards are: operational incentives based on measurements of safety, reliability and customer satisfaction; energy efficiency rewards based on the effectiveness of the programs; and natural gas procurement rewards. Although the Sempra Utilities have received PBR rewards in the past, there can be no assurance that they will receive rewards in the future, or that they would be of comparable amounts. Additionally, if the Sempra Utilities fail to achieve certain minimum performance levels established under the PBR mechanisms, they may be assessed financial disallowances or penalties which could negatively affect earnings and cash flows.

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, FERC or other regulatory bodies. New legislation, regulations, decisions, orders or interpretations could change how the Sempra Utilities operate, could affect their ability to recover various costs through rates or adjustment mechanisms, or could require the Sempra Utilities to incur additional expenses.

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

SDG&E owns a 20 percent interest in the San Onofre Nuclear Generating Station (SONGS), a 2,150 megawatt nuclear generating facility near San Clemente, California. The Nuclear Regulatory Commission (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 decommissioning nuclear plants at the end of their licensed lives.

The Sempra Utilities' future results of operations, financial condition and cash flows may be materially adversely affected by the outcome of pending litigation against them.

The California energy crisis of 2000 - 2001 has generated numerous lawsuits, governmental investigations and regulatory proceedings involving many energy companies, including Sempra Energy and the Sempra Utilities. During 2006, Sempra Energy and the Sempra Utilities reached agreement to settle several of these lawsuits including, subject to court and other approvals, the principal class action antitrust lawsuits in which they are defendants. However, the companies remain defendants in several additional lawsuits arising out of the energy crisis, including various antitrust actions. Sempra Energy and the Sempra Utilities have expended and continue to expend substantial amounts defending these lawsuits and in connection with related investigations and regulatory proceedings. They have established reserves that they believe to be appropriate for the ultimate resolution of these remaining matters. However, uncertainties inher ent in complex legal proceedings make it difficult to estimate with any degree of certainty the costs and effects of resolving legal matters. Accordingly, costs ultimately incurred may differ materially from estimated costs and could materially adversely affect Sempra Energy's and the Sempra Utilities' business, cash flows, results of operations and financial condition.

These proceedings are discussed in the notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Related to Sempra Energy's Electric Generation, Commodities Trading, Liquefied Natural Gas (LNG), Pipelines & Storage and Other Businesses

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

Sempra Commodities is a full-service trading company that markets and trades physical and financial commodity products. Its trading portfolios consist of physical and financial commodity contracts, including contracts for natural gas, power, petroleum and petroleum products, base metals and other commodities that are settled by the delivery of the commodity or cash. Although Sempra Commodities generally seeks to structure its trading contracts so that a substantial majority of its trading revenues are realizable within 24 months and strives to maintain appropriate hedging mechanisms for its trading book, Sempra Commodities may have substantial unhedged trading positions in the market, resulting from the management of its trading portfolios or from its inability to hedge, in whole or in part, particular risks.

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 Sempra Generation's risk management strategy, it may hedge a substantial portion of its electricity sales and natural gas purchases to manage its portfolio.

Sempra Energy's revenues and results of operations could be adversely affected if the prevailing market prices for electricity, natural gas, LNG or other commodities, whether procured for power plants or LNG regasification terminals to satisfy contractual obligations with trading counterparties or customers, in regional markets and other competitive markets in which the company competes, change in a direction or manner that it has not anticipated and for which it has 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; and expropriation of assets by foreign countries.

In 2001, the FERC, which 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 the company operates, imposed price limitations which resulted in unexpected moves in electricity prices. The FERC may impose additional price limitations, bidding rules and other mechanisms or terminate existing price limitations from time to time in the future. Any such action by the FERC may result in prices for electricity changing in an unanticipated direction or manner, and may have an adverse effect on Sempra Energy's sales and results of operations.

Sempra Energy and its subsidiaries cannot and do not attempt to fully hedge their assets or positions against changes in commodity prices, and their hedging procedures may not work as planned.

To reduce financial exposure related to commodity price fluctuations, Sempra Energy's subsidiaries routinely enter into contracts to hedge a substantial portion of their purchase and sale commitments and inventories of electricity, natural gas, crude oil and refined petroleum products, base metals and other commodities. As part of this strategy, they routinely utilize fixed-price, forward, physical purchase and sales contracts, futures, financial swaps and option contracts traded in the over-the-counter markets or on exchanges. However, the company does not cover the entire exposure of its assets or its positions to market price volatility and the coverage will vary over time. To the extent Sempra Energy's subsidiaries have unhedged positions, or if their hedging strategies do not work as planned, fluctuating commodity prices could have a material adverse effect on Sempra Energy's business, results of operations, cash flows and financial conditi on.

Risk management procedures may not prevent losses.

Although Sempra Energy and its subsidiaries 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 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 the company from significant losses. As a result of these and other factors, there can be no assurance that Sempra Energy's risk management procedures will prevent losses that would negatively affect its business, results of operations, cash flows and financial condition.

A downgrade in Sempra Energy's credit ratings could negatively affect its commodities trading and other non-utility businesses.

If Sempra Energy's credit ratings were to be downgraded, the business prospects of its commodities trading and other non-utility businesses, which generally rely on the credit-worthiness of Sempra Energy, would be adversely affected. Sempra Commodities would be required to comply with various margin or other credit enhancement obligations under its trading and marketing contracts, substantially all of which are guaranteed by Sempra Energy, and it may be unable to continue to trade or able to do so only on less-favorable terms. To meet liquidity requirements, Sempra Energy and its subsidiaries maintain substantial unused committed lines of credit for which borrowings are available without regard to credit ratings. However, a ratings downgrade could require Sempra Energy to divert to Sempra Commodities all or a portion of the liquidity that these lines would otherwise provide for the expansion of Sempra Energy's other non-utility businesses. In ad dition, if these lines were to become unavailable or to be inadequate to meet margin or other credit enhancement requirements, Sempra Commodities' trading partners could exercise other remedies such as liquidating and netting their exposures to Sempra Commodities, making it more difficult or impossible for Sempra Commodities to manage effectively its remaining trading positions or to continue its trading business, and Sempra Energy and its subsidiaries may not have sufficient liquidity to meet their obligations.

Sempra Energy's businesses depend on counterparties, business partners, customers and suppliers performing in accordance with their agreements, and any failure by them to perform could require the company to incur substantial expenses and expose it to commodity price risk and volatility, which could adversely affect Sempra Energy's liquidity, cash flows and results of operations.

Sempra Energy's subsidiaries 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, the company may be required to acquire alternative hedging arrangements or to honor the underlying commitment at then-current market prices. In such event, Sempra Energy's subsidiaries may incur additional losses to the extent of amounts already paid to such counterparties or suppliers. In addition, the subsidiaries often extend credit to counterparties and customers. While the company performs significant credit analyses prior to extending credit, Sempra Energy and its subsidiaries are exposed to the risk that they may not be able to collect amounts owed to them.

Sempra LNG's obligations and those of its suppliers for LNG supplies are contractually subject to suspension or termination for "force majeure" events beyond the control of the parties and to 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 for breach of the agreements.

If California's Department of Water Resources (DWR) were to succeed in setting aside, or were to fail to perform its obligations under its long-term power contract with Sempra Generation, Sempra Energy's 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 megawatts to the state. Sempra Energy expects the contract with the DWR will be a source of significant revenue over the 10-year period. 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 California 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 Sempra Energy's 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." As described in Note 15 of the no tes to Consolidated Financial Statements, the company unilaterally reduced its price to the DWR in connection with the agreement to settle other litigation.

In the future, Sempra Energy's subsidiaries 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 their projects, which would subject their sales to increased volatility and its 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, Sempra Energy's sales may be subject to increased price volatility, and it may be unable to sell the power generated by Sempra Generation's facilities or operate those facilities profitably.

Sempra LNG intends to utilize its regasification terminals by entering into long-term firm capacity service agreements whereby customers would pay Sempra LNG fees to use Sempra LNG's facilities to regasify the customer's LNG or by entering into long-term supply agreements for the purchase of LNG to be regasified at its terminals for sale to other parties. In the case of long-term supply agreements, these contracts are expected to substantially reduce its 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 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 Sempra Energy's business, results of operations, cash flows and financial conditio n. In addition, Sempra LNG does not intend to commence significant construction of its Port Arthur terminal or expansion of its Energía Costa Azul or Cameron terminals until it has obtained such long-term agreements. Reduced availability of LNG due to inadequate supplies, delays in the development of new liquefaction capacity and increased demand are affecting the timing of development of new LNG facilities and expansion of existing facilities, and are likely to delay near-term attainment of full-capacity utilization when facilities under construction become operational. The company's 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 will be dependent on supplies of natural gas from their transportation customers, which may include Sempra LNG facilities, including the proposed Cameron expansion.

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

The acquisition, development and construction of LNG receiving terminals, natural gas pipelines and storage facilities, and other energy infrastructure projects involve numerous risks. Sempra Energy and its subsidiaries may be required to expend significant sums for preliminary engineering, permitting, fuel supply, resource exploration, legal and other expenses before it can be established whether a project is feasible, economically attractive or capable of being built. Sempra Energy's 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 and timely implementation and satisfactory completion of construction. Successful completion of a particular project may be adversely affected by unforeseen engineering p roblems, construction delays and contractor performance shortfalls, work stoppages, adverse weather conditions, environmental and geological conditions, and other factors. If the company is unable to complete the development of a facility, it typically will not be able to recover its 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, and could adversely affect Sempra Energy's business, cash flows and results of operations.

Competition among developers and operators of LNG terminals has increased, which may adversely affect the costs of construction and future profitability of Sempra LNG's proposed LNG terminals.

Although there are only a limited number of LNG terminal facilities operating in North America today, many companies have announced plans to develop LNG facilities to serve the North American market. Some of these competitors have more operating experience, more development experience, larger staffs and greater financial resources than the company. Industry analysts have predicted that, if all of the proposed LNG facilities in North America that have been announced by developers are actually built, there will likely be substantial excess capacity at such terminals in the near future. Although its LNG facilities in Mexico, Louisiana and Texas are more advanced in the siting, permitting and regulatory approval processes than the proposed projects of many of its competitors, there can be no assurance that Sempra Energy will be able to maintain that advantage. In addition, increased development of LNG terminal facilities has increased competit ion for the resources required for their development, resulting in rising engineering and procurement costs, which may adversely affect development costs and timing of the expansion of existing facilities.

Sempra Energy's subsidiaries rely on transportation assets and services that they do not own or control to deliver electricity and natural gas.

Sempra Energy's subsidiaries depend on electric transmission lines, natural gas pipelines and other transportation facilities owned and operated by third parties to deliver the electricity and natural gas they sell to wholesale markets, to supply natural gas to their electric generation facilities, and to 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 will rely on specialized LNG ships to transport LNG to its LNG facilities and on natural gas pipelines to transport natural gas for customers of the facilities. If transportation is disrupted, or if capacity is inadequate, the ability of Sempra Energy's subsidiaries to sell and deliver their products and services may be hindered. As a result, they may be responsible for damages incurred by their customers, such as the ad ditional cost of acquiring alternative supply at then-current spot market rates.

Sempra Energy's businesses require numerous permits and other governmental approvals from various federal, state, local and foreign governmental agencies, and any failure to obtain or maintain required permits or approvals could cause Sempra Energy's sales to decline and/or its costs to increase.

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. All of the existing and planned development projects of Sempra Energy's subsidiaries require multiple permits. If there is a delay in obtaining any required regulatory approvals or if the company fails to obtain or maintain any required approvals or to comply with any applicable laws or regulations, it may not be able to operate its facilities, or it may be forced to incur additional costs.

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

Sempra Energy's other operations are subject to affiliate rules relating to transactions with the Sempra Utilities and with each other. These businesses could be adversely affected by changes in these rules or by additional CPUC or FERC rules' further restricting their ability to sell electricity or natural gas or to trade with the Sempra Utilities and with each other. Affiliate transaction rules also could require these businesses to obtain the prior approval of 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 plants or trading operations of the company's subsidiaries.

Various proceedings, inquiries and investigations relating to the business activities of Sempra Generation and Sempra Commodities are currently pending before the FERC. A description of such proceedings, inquiries and investigations is provided in the notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

Sempra Energy subsidiaries have interests in electricity generation, natural gas distribution and transmission, and LNG terminal projects in Mexico, and also have trading, marketing and risk management operations in Canada, Europe and Asia. Sempra Pipelines & Storage has ownership interests in electricity and natural gas distribution businesses in Argentina, Chile and Peru. Developing infrastructure projects, owning energy assets and operating businesses in foreign jurisdictions subject the company to significant political, legal and financial risks which 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; and
- general political, economic and business conditions.

Sempra Energy's international businesses also are subject to foreign currency risks. These risks arise from both volatility in foreign currency exchange 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. While Sempra Pipelines & Storage believes that it has contracts and other measures in place to mitigate its most significant foreign currency exchange risks, it has some exposure that is not fully mitigated.

Other Risks Related to the Company

Sempra Energy's businesses have significant environmental compliance costs, and future environmental compliance costs could adversely affect Sempra Energy's profitability.

Sempra Energy's subsidiaries 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. They are required to obtain numerous governmental permits, licenses and other approvals to construct and operate their businesses. Additionally, to comply with these legal requirements, they must spend significant sums on environmental monitoring, pollution control equipment and emissions fees. The company also is generally responsible for all on-site liabilities associated with the environmental condition of its electric generation facilities and other energy projects, regardless of when the liabilities arose and whether they are known or unknown. If Sempra Energy's subsidiaries fail to comply with applicable environmental laws, they may be subject to penalties, fines and/or curtailments of their operations.

The scope and effect of new environmental laws and regulations, including their effects on current operations and future expansions, are difficult to predict. Increasing international, national, regional and state-level concerns as well as new or proposed legislation may have substantial effects on 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 relating to greenhouse gases (including carbon dioxide, methane, nitrous oxide, hydrofluorocarbon, perfluorocarbon, and sulfur hexafluoride) may limit or otherwise adversely affect the operations of Sempra Energy and its subsidiaries. The implementation of recent California legislation and proposed federal legislation may adversely affect Sempra Energy's unregulated businesses by imposing additional costs associated with emission lim its and the possible requirement of the purchase of emission credits. Similarly, the Sempra Utilities may be affected if costs are not recoverable in rates and because the effects of significantly tougher standards may cause rates to increase to levels that substantially reduce customer demand and growth.

In addition, existing and future laws and regulation on mercury, nitrogen oxide and sulfur dioxide emissions could result in requirements for additional pollution control equipment or emission fees and taxes that could adversely affect Sempra Energy's subsidiaries. Moreover, existing rules and regulations may be interpreted or revised in ways that may adversely affect the company and its facilities and operations. Additional information on these matters is provided in Note 13 of the notes to the Consolidated Financial Statements.

Natural disasters, catastrophic accidents or acts of terrorism could materially adversely affect Sempra Energy's business, earnings and cash flows.

Like other major industrial facilities, Sempra Energy's generation plants, electric transmission facilities, LNG receipt terminals and storage facilities, chartered oil and LNG tankers and natural gas pipelines and storage facilities may be damaged by natural disasters, catastrophic accidents or acts of terrorism. Any such incidents could result in severe business disruptions, significant decreases in revenues or significant additional costs to the company, which could have a material adverse effect on the company's earnings and cash flows. Given the nature and location of these facilities, any such incidents also could cause fires, leaks, explosions, spills or other significant damage to natural resources or property belonging to third parties, or personal injuries, which could lead to significant claims against the company and its subsidiaries. Insurance coverage may become unavailable for certain of these risks and the insurance proceeds received for any loss of or damage to any of its facilities, or for any loss of or damage to natural resources or property or personal injuries caused by its operations, may be insufficient to cover the company's losses or liabilities without materially adversely affecting the company's financial condition, earnings and cash flows.

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

The company's ability to pay dividends and meet its debt obligations is dependent on cash flows from its subsidiaries and, in the short term, its ability to raise capital from external sources. Cash flows from the subsidiaries are dependent, in the long term, on the ability of the subsidiaries to generate operating cash flows in excess of their own capital expenditures. 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.

GOVERNMENT REGULATION

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

California Utility Regulation

The CPUC, which 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, rate of return, rates of depreciation, uniform systems of accounts and long-term resource procurement, except as described below under “United States Utility Regulation.” The CPUC also has jurisdiction over the proposed construction of major new electric transmission, electric distribution and natural gas transmission facilities. The CPUC conducts various reviews of utility performance, conducts audits of the company’s records for compliance with regulatory guidelines, and conducts investigations into various matters, such as deregulation, competition and the environment, to determine its future policies. The CPUC also regulates the interactions and transactions of the utilities with Sempra Energy, as discussed further in Note 14 of the notes to Consolidated Financial Statements.

The California Energy Commission (CEC) 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 for conservation programs. The CEC sponsors alternative-energy research and development projects, promotes energy conservation programs and maintains a statewide plan of action in case of energy shortages. In addition, the CEC certifies power-plant sites and related facilities within California.

The CEC conducts a 20-year forecast of supply availability and prices for every market sector consuming 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 used to support long-term investment decisions.

Assembly Bill 32, the California Global Warming Solutions Act of 2006, makes the California Air Resources Board (CARB) responsible for monitoring and reducing GHG emissions. The bill requires CARB to develop and adopt a comprehensive plan for achieving real, quantifiable and cost-effective GHG emission reductions including, among other things, 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. The California Legislature established CARB in 1967 to attain and maintain healthy air quality and to conduct research into the causes of and solutions to air pollution. CARB is made up of eleven members appointed by the Governor.

United States Utility Regulation

The FERC regulates the interstate sale and transportation of natural gas, the transmission and wholesale sales of electricity in interstate commerce, transmission access, the uniform systems of accounts, rates of depreciation and electric rates involving sales for resale. Both the FERC and the CPUC are currently investigating prices charged to the California investor-owned utilities (IOUs) by various suppliers of natural gas and electricity. Further discussion is provided in Notes 13, 14 and 15 of the notes to Consolidated Financial Statements.

The NRC oversees the licensing, construction and operation of nuclear facilities. 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, requires plant modifications as a condition of continued operation in some cases.

Local Regulation

SoCalGas has natural gas franchises with the 240 legal jurisdictions in its service territory. These franchises allow SoCalGas to locate, operate and maintain facilities for the transmission and distribution of natural gas in streets and other public places. Some franchises, such as that for the city of Los Angeles, which expires in 2012, have fixed expiration dates ranging from 2007 to 2048. Most of the franchises have indeterminate lives with no expiration date.

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 streets and other public places. Most of the franchises have indeterminate lives, except for the electric and natural gas franchises with the cities of Encinitas (2012), Chula Vista (2015), San Diego (2020) and Coronado (2028) and the natural gas franchises with the county of San Diego (2029) and the city of Escondido (2035).

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, and Sempra Generation operates a natural gas-fired power plant in Baja California, Mexico. These operations are regulated by labor and environmental agencies of city and state governments. Sempra Generation, Sempra LNG, and Sempra Pipelines & Storage have operations in Nevada, Arizona, California, Louisiana, Maine and North Carolina. These entities are regulated by the respective states and local utilities commissions in which they operate.

Other Regulation

Sempra Commodities' operations are subject to regulation by the New York Mercantile Exchange, the London Metal Exchange, the Commodity Futures Trading Commission, the FERC and the National Futures Association. It also has trading locations in Canada, Europe and Asia that are subject to regulation as to operations and financial position by bodies such as the Financial Services Authority and the London International Futures Exchange.

Sempra Generation and Sempra LNG have operations in the United States that are subject to regulation by the FERC and operations in Mexico that are subject to regulation by the Comisión Reguladora de Energía.

Sempra Pipelines & Storage's operations in Mexico are subject to Mexico's federal regulations. The primary regulatory body is the Comisión Reguladora de Energía.

Licenses and Permits

The Sempra Utilities obtain numerous permits, authorizations and licenses in connection with the transmission and distribution of natural gas and electricity. They require periodic renewal, which results in continuing regulation by the granting agency.

The company's 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 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 obtains licenses and permits for natural gas storage facilities and pipelines. Sempra LNG obtains licenses and permits for the construction and operation of LNG facilities.

Other regulatory matters are described in Notes 13 and 14 of the notes to Consolidated Financial Statements.

CALIFORNIA NATURAL GAS UTILITY OPERATIONS

The company is engaged in the purchase, sale, distribution, storage and transportation of natural gas through the Sempra Utilities. The company's resource planning, natural gas procurement, contractual commitments and related regulatory matters are discussed below and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 14 and 15 of the notes to Consolidated Financial Statements.

Customers

For regulatory purposes, customers are classified as core and noncore customers. Core customers are primarily residential and small commercial and industrial customers, without alternative fuel capability. Noncore customers consist primarily of electric generation, wholesale, large commercial, industrial and enhanced oil recovery customers.

Most core customers purchase natural gas directly from the Sempra Utilities. Core customers are permitted to aggregate their natural gas requirement and purchase directly from brokers or producers. The Sempra Utilities continue to be obligated to purchase reliable supplies of natural gas to serve the requirements of core customers.

Natural Gas Procurement and Transportation

Most of the natural gas purchased and delivered by the Sempra Utilities is produced outside of California, primarily in the Southwestern U.S., U.S. Rockies and Canada. The Sempra Utilities purchase natural gas under short-term and long-term contracts, which are primarily based on monthly spot-market prices.

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 pipeline capacity contracts that require the payment of fixed reservation charges to reserve firm transportation entitlements. SoCalGas sells any excess capacity on a short-term basis. Interstate pipeline companies, primarily El Paso Natural Gas Company, Transwestern Pipeline Company and Kern River Gas Transmission, provide transportation services into SoCalGas' intrastate transmission system for supplies purchased by SoCalGas or its transportation customers from outside of California. The rates that interstate pipeline companies may charge for natural gas and transportation services are regulated by the FERC.

SDG&E has natural gas transportation contracts with various interstate pipelines that expire on various dates between 2007 and 2023. SDG&E currently purchases natural gas on a spot basis from Canada, the U.S. Rockies and the Southwestern U.S. to fill its long-term pipeline capacity and purchases additional spot-market supplies delivered directly to California for its remaining requirements. SDG&E continues its ongoing assessment of its pipeline capacity portfolio, including the release of a portion of this capacity to third parties. In accordance with regulatory directives, SDG&E continues to reconfigure its pipeline capacity portfolio to secure firm transportation rights from a diverse mix of U.S. and Canadian supply sources for its projected core customer natural gas requirements. All of SDG&E's natural gas is delivered through SoCalGas' pipelines under a long-term transportation agreement. In addition, under separate agree ments expiring in March 2008, SoCalGas provides SDG&E up to nine billion cubic feet (bcf) of storage capacity.

According to "Btu's Daily Gas Wire", the average spot price of natural gas at the California/Arizona border was $6.15 per million British thermal units (mmbtu) in 2006 ($6.74 per mmbtu in December 2006), compared with $7.62 per mmbtu in 2005 and $5.57 per mmbtu in 2004. The Sempra Utilities' weighted average cost (including transportation charges) per mmbtu of natural gas was $6.54 in 2006, $7.83 in 2005 and $5.94 in 2004.

Natural Gas Storage

SoCalGas provides natural gas storage services for use by core, noncore and off-system customers. Core customers are allocated a portion of SoCalGas' storage capacity. Other customers, including SDG&E, can bid and negotiate the desired amount of storage on a contract basis. The storage service program provides opportunities for these customers to store natural gas, usually during the summer, to reduce winter purchases when natural gas costs are generally higher. This allows customers to select the level of service they desire to assist them in managing 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 non-core industrial market, some customers are capable of using alternate fuels which can affect the demand for natural gas. The company's ability to maintain its industrial market share is largely dependent on energy prices. The demand for natural gas by electric generators is influenced by a number of factors. In the short-term, natural gas use by electric generators is impacted by the availability of alternative sources of generation. The availability of hydroelectricity is highly dependent on precipitation in the western United States and Canada. In addition, natural gas use is impacted by the performance of other generation sources in the western United States, including nuclear and coal, and other natural gas facilities outside the service area. Natural gas use is also impacted by changes in end-use electricity demand. For example, natural gas use generally increases during summer heat waves. Over the long-term, natural gas used to generate electricity will be influenced by additional factors such as the location of new power plant construction and the development of renewable resources. More generation capacity currently is being constructed outside Southern California than within the Sempra Utilities' service area. This new generation will likely displace the output of older, less-efficient local generation, reducing the use of natural gas for local electric generation.

Effective March 31, 1998, electric industry restructuring provided out-of-state producers the option to provide power to California utility customers. As a result, natural gas demand for electric generation within Southern California competes with electric power generated throughout the western United States. Although electric industry restructuring has no direct impact on the company's natural gas operations, future volumes of natural gas transported for electric generating plant customers may be significantly affected to the extent that regulatory changes divert electric generation from the company's service area.

Growth in the natural gas markets is largely dependent upon the health and expansion of the Southern California economy and prices of other energy products. External factors such as weather, the price of electricity, electric deregulation, the use of hydroelectric power, development of renewable resources, development of new natural gas supply sources and general economic conditions can result in significant shifts in demand and market price. The Sempra Utilities added 85,000 and 86,000 new customer meters in 2006 and 2005, respectively, representing growth rates of 1.3 percent and 1.4 percent, respectively. The Sempra Utilities expect that their growth rate for 2007 will approximate that of 2006.

The natural gas distribution business is seasonal in nature and revenues generally are greater during the winter months. As is prevalent in the industry, the company 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

At December 31, 2006, SDG&E had 1.4 million customer meters consisting of 1,202,000 residential, 144,000 commercial, 500 industrial, 2,000 street and highway lighting, and 5,800 direct access. The company's service area covers 4,100 square miles. The company added 17,000 new electric customer meters in 2006 and 20,000 in 2005, representing growth rates of 1.3 percent and 1.5 percent, respectively. The company expects that its growth rate for 2007 will approximate that of 2006.

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 13, 14 and 15 of the notes to Consolidated Financial Statements.

Electric Resources

Based on CPUC-approved purchased-power contracts currently in place with its various suppliers, its Palomar and Miramar generating plants and its 20-percent ownership interest in SONGS, the supply of electric power available to SDG&E as of December 31, 2006 is as follows:

Supplier	Source	Expiration date	Megawatts (MW)
PURCHASED-POWER CONTRACTS:			
DWR-allocated contracts:			
Williams Energy Marketing & Trading	Natural gas	2007 to 2010	700 *
Sunrise Power Co. LLC	Natural gas	2012	575
Other (5 contracts)	Natural gas / wind	2011 to 2013	264
Total			1,539
Other contracts with Qualifying Facilities (QFs):			
Applied Energy Inc.	Cogeneration	2019	102
Yuma Cogeneration	Cogeneration	2024	50
Goal Line Limited Partnership	Cogeneration	2025	50
Other (18 contracts)	Cogeneration	2009 and thereafter	56
Total			258
Other contracts with renewable sources:			
Oasis Power Partners	Wind	2019	60
Kumeyaay	Wind	2025	50
AES Delano	Bio-mass	2007	49
PPM Energy	Wind	2018	25
WTE / FPL	Wind	2019	17
Other (6 contracts)	Bio-gas	2007 to 2014	24
Total			225
Other long-term contracts:			
Portland General Electric (PGE)	Coal	2013	89
Celerity	Natural Gas	2016	5
Total contracted			2,116
GENERATION:			
Palomar	Natural Gas		550
SONGS	Nuclear		430
Miramar	Natural Gas		45
Total generation			1,025
TOTAL CONTRACTED AND GENERATION			3,141

* Effective January 1, 2007, after 1,206 MW were reallocated to Southern California Edison (Edison) by the CPUC, as described in Note 13 of the notes to Consolidated Financial Statements.

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 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. The prices under these contracts are at the market value at the time the contracts were negotiated.

SONGS

SDG&E owns 20 percent of SONGS, which is located south of San Clemente, California. SONGS consists of three nuclear generating units. The city of Riverside owns 1.79 percent of Units 2 and 3, and Edison, the operator of SONGS, owns the remaining interests. The city of Anaheim sold its 3.16 percent interest in SONGS Units 2 and 3 to Edison effective December 28, 2006.

Unit 1 was removed from service in November 1992 when the CPUC issued a decision to permanently shut it down. Decommissioning of Unit 1 is now in progress and its spent nuclear fuel is being stored on site.

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.

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

Additional information concerning the SONGS units and nuclear decommissioning is provided below, in "Environmental Matters" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 6, 13 and 15 of the notes to Consolidated Financial Statements.

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 which extend through 2012. The availability and the cost of the various components of the nuclear fuel cycle for SDG&E's 20-percent ownership interest in SONGS in subsequent years cannot be estimated at this time.

Spent fuel from SONGS is being stored on site in the independent spent fuel storage installation, where storage capacity is expected to be adequate through 2022, the expiration date of the units' NRC operating license. 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 2010 at the earliest.

Additional information concerning nuclear-fuel costs and the storage and movement of spent fuel is provided in Notes 13 and 15, respectively, of the notes to Consolidated Financial Statements.

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 270 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 that have been preapproved by the FERC.

Transmission Arrangements

The Pacific Intertie, consisting of AC and DC transmission lines, connects the Northwest U.S. with SDG&E, Pacific Gas & Electric, Edison and others under an agreement. SDG&E's share of the Pacific Intertie is 266 MW.

Power originating from sources utilizing the Pacific Intertie, as well as power from other sources, can be imported into SDG&E's system via the Edison - SDG&E interconnection at the SONGS switchyard. Five 230-kilovolt transmission lines into SDG&E's system from that interconnection comprise the "South of SONGS" path, which is normally rated at 2,200 MW.

Subject to the FERC's approval and any litigation concerning term, the Pacific Intertie agreement will expire no earlier than July 31, 2007. SDG&E is currently evaluating its participation in the agreement, and has not yet determined whether or not to propose an extension of the agreement.

SDG&E's 500-kilovolt Southwest Powerlink transmission line, which is shared with Arizona Public Service Company and Imperial Irrigation District, extends from Palo Verde, Arizona, to San Diego. SDG&E's share of the line is 1,163 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-kilovolt interconnections with firm capability of 408 MW in the north to south direction and 800 MW in the south to north direction.

SDG&E is in the planning stages for the Sunrise Powerlink, a new 500-kilovolt transmission line between the existing Imperial Valley Substation and a new central substation to be located within the SDG&E system. The proposed rating of the Sunrise Powerlink is 1,000 MW or higher. The project is subject to CPUC approval and is estimated to cost $1.3 billion, of which SDG&E's participation is expected to be $1 billion. The project, subject to timely regulatory approval and permitting, is planned to be in service in 2010.

Transmission Access

The National Energy Policy Act governs procedures for others' requests for transmission service. The FERC approved the California IOUs' transfer of operation and control of their transmission facilities to the Independent System Operator (ISO) in 1998.

Additional information regarding the FERC, ISO and transmission issues is provided in Note 13 of the notes to Consolidated Financial Statements.

SEMPRA GLOBAL

Sempra Global consists of most of the businesses of Sempra Energy other than the Sempra Utilities, and serves a broad range of customers' energy and other needs. Sempra Global includes Sempra Commodities, Sempra Generation, Sempra LNG and Sempra Pipelines & Storage. Descriptions of these business units and information concerning their operations are provided under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 2, 3, 4, 15 and 16 of the notes to Consolidated Financial Statements.

RATES AND REGULATION -- SEMPRA UTILITIES

Information concerning rates and regulation applicable to the Sempra Utilities is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 1, 13 and 14 of the notes to Consolidated Financial Statements.

ENVIRONMENTAL MATTERS

Discussions about environmental issues affecting the company are included in Notes 13 and 15 of the notes to Consolidated Financial Statements. The following additional information should be read in conjunction with those discussions.

Hazardous Substances

In 1994, the CPUC approved the Hazardous Waste Collaborative Memorandum account, allowing California's IOUs to recover their hazardous waste cleanup costs, including those related to Superfund sites or similar sites requiring cleanup. Rate recovery of 90 percent of hazardous waste cleanup costs and related third-party litigation costs, and 70 percent of the related insurance-litigation expenses is permitted. In addition, the company has the opportunity to retain a percentage of any insurance recoveries to offset the 10 percent of costs not recovered in rates.

At December 31, 2006, the company had accrued its estimated remaining investigation and remediation liability related to hazardous waste sites, including numerous locations that had been manufactured-gas plants, of $39.3 million, of which 90 percent is authorized to be recovered through the Hazardous Waste Collaborative mechanism. This estimated cost excludes remediation costs of $8.9 million associated with SDG&E's former fossil-fuel power plants. The company believes that any costs not ultimately recovered through rates, insurance or other means will not have a material adverse effect on the company's consolidated results of operations or financial position.

Estimated liabilities for environmental remediation are recorded when amounts are probable and estimable. Amounts authorized to be recovered in rates under the Hazardous Waste Collaborative mechanism are recorded as a regulatory asset.

Electric and Magnetic Fields (EMFs)

Although scientists continue to research the possibility that exposure to EMFs causes adverse health effects, science has not demonstrated a cause-and-effect relationship between exposure to the type of EMFs emitted by power lines and other electrical facilities and adverse health effects. Some laboratory studies suggest that such exposure creates biological effects, but those effects have not been shown to be harmful. The studies that have most concerned the public are epidemiological studies, some of which have reported a weak correlation between childhood leukemia and the proximity of homes to certain power lines and equipment. Other epidemiological studies found no correlation between estimated exposure and any disease. Scientists cannot explain why some studies using estimates of past exposure report correlations between estimated EMF levels and disease, while others do not.

To respond to public concerns, the CPUC previously directed California IOUs to adopt a low-cost EMF-reduction policy that requires reasonable design changes to achieve noticeable reduction of EMF levels that are anticipated from new projects. In 2006, the CPUC reviewed the resultant policy in an Order Instituting Ratemaking and found no new scientific research to support a change to the existing policy, finding existing policy of prudent avoidance to be sufficient and reasonable.

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. Costs to comply with these standards are recovered in rates.

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 environmental damage to the marine environment attributed to the cooling-water discharge from SONGS Units 2 and 3. SDG&E's share of the cost is estimated to be $35 million, of which $18 million had been incurred at December 31, 2006, and $17 million is accrued for the remaining costs through 2050. In May 2006, the CPUC adopted a decision in Edison's 2006 General Rate Case, in which decision SDG&E is no longer subject to a 50-percent disallowance of cost recovery going forward.

OTHER MATTERS

Research, Development and Demonstration (RD&D)

Effective January 2005, a surcharge was established by the CPUC for natural gas public interest RD&D. The program is administered by the CEC. SoCalGas and SDG&E funding for the program was $8 million and $1 million, respectively, in 2006 and $6 million and $1 million, respectively, in 2005. SoCalGas operates a separate natural gas RD&D program, focused on utility operations, end-use utilization, advanced distributed power generation and transportation. Each of these activities provides benefits to customers and society by providing more cost-effective, efficient natural gas equipment with lower emissions, increased safety and reduced operating costs. SoCalGas' RD&D expenditures were $8 million, $11 million and $9 million in 2006, 2005 and 2004, respectively.

SDG&E continues to fund the California Public Interest Energy Research (PIER) Program for electric research. SDG&E's funding level for the PIER program was $6 million for each of 2006, 2005 and 2004.

Employees of Registrant

As of December 31, 2006, the company had 14,061 employees, compared to 13,420 at December 31, 2005.

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 agreements for these employees covering wages, hours, working conditions, and medical and other benefit plans are in effect through September 30, 2008.

Field, technical and some clerical employees at SDG&E are represented by Local 465 International Brotherhood of Electrical Workers. The collective bargaining agreement for field, technical and some clerical employees at SDG&E covering wages, hours and working conditions is in effect through August 31, 2008. For these same employees, the agreements covering health and welfare benefits and pension benefits are in effect through December 31, 2007 and December 4, 2009, respectively.

ITEM 2. PROPERTIES

Electric Properties - SDG&E

SDG&E owns two natural gas-fired power plants: a 550-MW electric generation facility (the Palomar generation facility) located in Escondido, California, and a 45-MW electric generation facility (the Miramar generation facility) located in San Diego, California. SDG&E's interest in SONGS is described in "Electric Resources" herein.

At December 31, 2006, SDG&E's electric transmission and distribution facilities included substations, and overhead and underground lines. The electric facilities are located in San Diego, Imperial and Orange counties of California and in Arizona, and consist of 1,879 miles of transmission lines and 21,887 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, 2006, the Sempra Utilities' natural gas facilities included 3,054 miles of transmission and storage pipeline, 57,071 miles of distribution pipeline and 53,051 miles of service pipelines. They also included 13 transmission compressor stations and 4 underground storage reservoirs with a combined working capacity of 129 bcf.

Energy Properties - Sempra Global

At December 31, 2006, Sempra Generation operates power plants in California, Arizona, Nevada and Mexico with total capacity of 2,630 MW. Additional information is provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Notes 2 and 3 of the notes to Consolidated Financial Statements.

At December 31, 2006, Sempra Pipelines & Storage's operations in Mexico included 1,726 miles of distribution pipeline, 165 miles of transmission pipeline and one compressor station.

Sempra Pipelines & Storage also operates two small natural gas utilities, Frontier Energy and Bangor Gas, located in North Carolina and Maine, respectively, which own 148 miles of transmission lines, 238 miles of distribution lines and 24 miles of service lines. In June 2006, the company decided to sell these facilities, and in January 2007, entered into agreements to do so, as discussed in Note 4 of the notes to Consolidated Financial Statements.

Other Properties

Sempra LNG is constructing an LNG receipt terminal on land it owns in Baja California, Mexico. Sempra LNG has a land lease where it is developing its Cameron LNG receipt terminal in Hackberry, Louisiana, and owns land in Jefferson County, Texas, to be used for the proposed Port Arthur LNG receipt terminal.

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 and more than 150 acres of property in Cameron Parish, Louisiana, to be developed into a natural gas storage project.

The 21-story corporate headquarters building at 101 Ash Street, San Diego, California, is occupied pursuant to an operating lease that expires in 2015. The lease has two separate five-year renewal options.

SoCalGas leases approximately half of a 52-story office building in downtown Los Angeles through 2011. The operating lease has six five-year renewal options.

SDG&E occupies an office complex in San Diego pursuant to two separate operating leases. One lease ends in 2007, with two five-year renewal options. The second lease ends in 2017, and has four five-year renewal options.

Sempra Global leases office facilities at various locations in the U.S., Mexico and Europe with the leases ending from 2007 to 2035.

The company owns or leases other land, easements, rights of way, warehouses, offices, operating and maintenance centers, shops, service facilities and equipment necessary in the conduct of its business.

ITEM 3. LEGAL PROCEEDINGS

Except for the matters described in Notes 13, 14 and 15 of the notes to Consolidated Financial Statements or referred to in "Management's Discussion and Analysis of Financial Condition and Results of Operations," neither the company nor its subsidiaries are party to, nor is their property the subject of, any material pending legal proceedings.

The County of San Diego filed and then withdrew litigation against Sempra Energy and SDG&E that sought unspecified civil penalties for alleged violations of environmental standards applicable to the abatement, handling and disposal of asbestos-containing materials during the 2001 demolition of a natural gas storage facility. In addition, in November 2006, a federal court dismissed all charges against SDG&E and two employees in a federal criminal indictment charging them with having violated these standards and for related charges of conspiracy and having made false statements to governmental authorities. On February 12, 2007, the court granted the federal government's motion for reconsideration with respect to the false statement count and the matter will proceed to trial in 2007.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Sempra Energy common stock is traded on the New York Stock Exchange. At January 31, 2007, there were 50,000 record holders of the company's common stock. The quarterly common stock information required by Item 5 is included in the schedule of Quarterly Common Stock Data provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The information required by Item 5 concerning dividend declarations is included in the "Statements of Consolidated Comprehensive Income and Changes in Shareholders' Equity" set forth in Item 8 of the 2006 Annual Report to Shareholders.

Dividend Restrictions

The payment and amount of future dividends are within the discretion of the company's board of directors. The CPUC's regulation of the Sempra Utilities' capital structure limits the amounts that are available for loans and dividends to the company from the Sempra Utilities. Additional information regarding these restrictions is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under "Capital Resources and Liquidity--Dividends."

Performance Graph -- Comparative Total Shareholder Returns

The performance graph required by Item 5 is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Equity Compensation Plans

The company's 1998 Long Term Incentive Plan and Employee Stock Incentive Plan permit the grant of a wide variety of equity and equity-based incentive awards to officers and key employees. At December 31, 2006, outstanding awards consisted of stock options and restricted stock held by 336 employees.

The company's Non-employee Directors Stock Plan also provides for annual automatic grants to non-employee directors of options to purchase common stock.

The Employee Stock Incentive Plan was adopted in November 2000 and is administered by the Compensation Committee of the Sempra Energy Board of Directors. Shares under the plan may consist of nonqualified stock options, restricted stock and/or stock awards. Shares may be granted to any employee who is not an officer within the meaning of Section 16a-1(f) of the Exchange Act. The number of shares initially available for grant under the plan was 10 million, and approximately 8 million shares remain available for grant as of December 31, 2006. No shares have been granted under this plan since 2003.

The following table sets forth information regarding these plans at December 31, 2006.

Equity Compensation Plan Information

	Number of shares to be issued upon exercise of outstanding options (A)	Weighted-average exercise price of outstanding options	Number of additional shares remaining available for future issuance
Equity compensation plans approved by shareholders:			
1998 Long Term Incentive Plan	6,574,160	$29.08	9,083,501 (B) (C) (D)
Non-employee Directors Stock Plan	420,000	$28.92	793,260 (E)
Equity compensation plans not approved by shareholders:			
Employee Stock Incentive Plan	309,275	$24.38	8,199,805 (B) (C)

(A) Consists solely of options to purchase 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) Excludes shares subject to outstanding stock options and those subject to other outstanding awards, consisting of unvested shares of restricted stock which total 2,872,003 shares for the 1998 Long Term Incentive Plan and no shares for the Employee Stock Incentive Plan.

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

(D) The number of shares available for future issuance also is increased at the beginning of each year by 1.5 percent of the total number of shares of common stock then outstanding.

(E) The number of shares available for future issuance is increased by the number of shares subject to awards that lapse, expire or are otherwise terminated or settled other than by the issuance of shares.

Additional discussion of stock-based compensation is provided in Note 9 of the notes to Consolidated Financial Statements.

Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities:

On April 6, 2005, the board of directors authorized the expenditure of up to $250 million for the purchase of shares of common stock, at any time and from time to time, in the open market, in negotiated transactions and otherwise, of which $88 million (representing 2,266,500 shares) has been utilized through December 31, 2006. The maximum dollar value of the shares that may yet be purchased under this program is $162 million.

In addition to the program discussed above, the company may, from time to time, repurchase shares of its common stock from restricted stock program participants who elect to sell enough shares to meet minimum statutory tax withholding requirements. On December 31, 2006, the company purchased 455,931 shares, at a price of $56.15 per share, from restricted stock program participants.

ITEM 6. SELECTED FINANCIAL DATA

	At December 31, or for the years then ended				
(Dollars in millions, except per share amounts)	2006	2005	2004	2003	2002
Income Statement Data:					
Operating revenues	$ 11,761	$ 11,512	$ 9,234	$ 7,697	$ 5,943
Operating income	$ 1,785	$ 1,089	$ 1,272	$ 1,012	$ 989
Income from continuing operations before extraordinary item and cumulative effect of changes in accounting principles	$ 1,091	$ 913	$ 915	$ 745	$ 591
Net income	$ 1,406	$ 920	$ 895	$ 649	$ 591
Balance Sheet Data:					
Total assets	$ 28,949	$ 29,246	$ 23,847	$ 22,053	$ 20,289
Long-term debt	$ 4,525	$ 4,815	$ 4,182	$ 3,828	$ 4,067
Short-term debt (a)	$ 933	$ 1,141	$ 783	$ 1,429	$ 815
Trust preferred securities	$ --	$ --	$ 200 *	$ 200	$ 200
Shareholders' equity	$ 7,511	$ 6,160	$ 4,865	$ 3,890	$ 2,825
Per Common Share Data:					
Income from continuing operations before extraordinary item and cumulative effect of changes in accounting principles:					
Basic	$ 4.25	$ 3.71	$ 4.01	$ 3.53	$ 2.88
Diluted	$ 4.17	$ 3.62	$ 3.92	$ 3.48	$ 2.87
Net income:					
Basic	$ 5.48	$ 3.74	$ 3.92	$ 3.07	$ 2.88
Diluted	$ 5.38	$ 3.65	$ 3.83	$ 3.03	$ 2.87
Dividends declared	$ 1.20	$ 1.16	$ 1.00	$ 1.00	$ 1.00
Book value	$ 28.67	$ 23.95	$ 20.77	$ 17.17	$ 13.79

(a) Includes long-term debt due within one year.

* The company redeemed these securities in February 2005.

This data should be read in conjunction with the Consolidated Financial Statements and the notes to Consolidated Financial Statements. Prior period amounts have been revised to reflect the decisions to sell or dispose of various assets. See Note 4 of the notes to Consolidated Financial Statements for additional information concerning discontinued operations.

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

The information required by Item 7 is incorporated by reference from pages 1 through 40 of the 2006 Annual Report to Shareholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 7A is incorporated by reference from pages 29 through 33 of the 2006 Annual Report to Shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Item 8 is incorporated by reference from pages 45 through 124 of the 2006 Annual Report to Shareholders. Item 15(a)1 includes a listing of financial statements included in the 2006 Annual Report to Shareholders.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Company management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). The company has designed and maintains disclosure controls and procedures to ensure that information required to be disclosed in the company's reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, management recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives and necessarily applies judgment in evaluating the c ost-benefit relationship of other possible controls and procedures. In addition, the company has investments in unconsolidated entities that it does not control or manage and, consequently, its disclosure controls and procedures with respect to these entities are necessarily substantially more limited than those it maintains with respect to its consolidated subsidiaries.

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

The company evaluates the effectiveness of its internal control over financial reporting based on the framework in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the company evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of December 31, 2006, the end of the period covered by this report. Based on that evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting is included in Item 8, which information, as noted above, is incorporated by reference from the 2006 Annual Report to Shareholders.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference from "Corporate Governance" and "Share Ownership" in the Proxy Statement prepared for the April 2007 annual meeting of shareholders. The information required on the company's executive officers is provided below.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age*	Position*
Donald E. Felsinger	59	Chairman and Chief Executive Officer
Neal E. Schmale	60	President and Chief Operating Officer
Javade Chaudhri	54	Executive Vice President and General Counsel
Edwin A. Guiles	57	Executive Vice President, Corporate Development
Jessie J. Knight, Jr.	56	Executive Vice President, External Affairs
Mark A. Snell	50	Executive Vice President and Chief Financial Officer
Joseph A. Householder	51	Senior Vice President, Controller, and Chief Tax Counsel
Charles A. McMonagle	57	Senior Vice President and Treasurer
G. Joyce Rowland	52	Senior Vice President, Human Resources

* As of February 22, 2007.

Each Executive Officer has been an officer of the company or one of its subsidiaries for more than five years, except for Mr. Chaudhri and Mr. Knight. Prior to joining the company in 2003, Mr. Chaudhri was Senior Vice President and General Counsel of Gateway, Inc. since 2001. Prior to joining the company in 2006, Mr. Knight served as President and CEO of the San Diego Regional Chamber of Commerce since 1999.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from "Corporate Governance", "Compensation Discussion and Analysis", "Compensation Committee Report" and "Executive Compensation" in the Proxy Statement prepared for the April 2007 annual meeting of shareholders.

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.

Additional discussion of stock-based compensation is provided in Note 9 of the notes to Consolidated Financial Statements.

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 2007 annual meeting of shareholders.

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 2007 annual meeting of shareholders.

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 - Board of Directors Proposals - Proposal 2: Ratification of Independent Registered Public Accounting Firm" in the Proxy Statement prepared for the April 2007 annual meeting of shareholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Financial statements

* Incorporated by reference from the indicated pages of the 2006 Annual Report to Shareholders, filed as Exhibit 13.01.

2. Financial statement schedules

Schedule I--Condensed Financial Information of Parent may be found on page 37.

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 42 of this report.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND REPORT ON SCHEDULE

To the Board of Directors and Shareholders of Sempra Energy:

We consent to the incorporation by reference in Registration Statements No. 333-51309, 333-52192, 333-70640 and 333-103588 on Form S-3 and 333-56161, 333-50806, 333-49732, 333-121073 and 333-128441 on Form S-8 of our reports dated February 21, 2007 relating to the financial statements of Sempra Energy (the "Company") (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's adoption of Financial Accounting Standards Board ("FASB") Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, effective December 31, 2006, and FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*, effective December 31, 2005) and management's report on the effectiveness of internal contro l over financial reporting, incorporated by reference in this Annual Report on Form 10-K of Sempra Energy for the year ended December 31, 2006.

Our audits of the financial statements referred to in our aforementioned reports also included the financial statement schedule of Sempra Energy, 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 21, 2007

Schedule I -- Condensed Financial Information of Parent

SEMPRA ENERGY

Condensed Statements of Income
(Dollars in millions, except per share amounts)

	Years ended December 31, 2006	2005	2004
Interest income	$ 188	$ 186	$ 168
Interest expense	(202)	(197)	(202)
Litigation expense	(2)	(316)	(44)
Operating expenses and other	(97)	(41)	(8)
Income tax benefits	61	195	93
Income (losses) before subsidiary earnings	(52)	(173)	7
Subsidiary earnings	1,458	1,093	888
Net income	$ 1,406	$ 920	$ 895
Basic earnings per share:			
Net income	$ 5.48	$ 3.74	$ 3.92
Weighted-average number of shares outstanding (thousands)	256,477	245,906	228,271
Diluted earnings per share:			
Net income	$ 5.38	$ 3.65	$ 3.83
Weighted-average number of shares outstanding (thousands)	261,368	252,088	233,852

See notes to Condensed Financial Information of Parent.

SEMPRA ENERGY

Condensed Balance Sheets
(Dollars in millions)

	December 31, 2006	December 31, 2005
Assets:		
Cash and cash equivalents	$ 427	$ 183
Due from affiliates	17	58
Other current assets	65	84
Total current assets	509	325
Investments in subsidiaries	7,824	6,369
Due from affiliates	2,845	2,822
Other assets	699	620
Total assets	$ 11,877	$ 10,136
Liabilities and Shareholders' Equity:		
Current portion of long-term debt	$ 600	$ --
Income taxes payable	453	286
Due to affiliates	891	619
Other current liabilities	313	336
Total current liabilities	2,257	1,241
Long-term debt	1,590	2,203
Other long-term liabilities	519	532
Shareholders' equity	7,511	6,160
Total liabilities and shareholders' equity	$ 11,877	$ 10,136

See notes to Condensed Financial Information of Parent.

Condensed Statements of Cash Flows
(Dollars in millions)

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	Years ended December 31, 2006	2005	2004
Net cash provided by (used in) operating activities	$ 322	$ 330	$ (7)
Dividends received from subsidiaries	150	1,025	200
Expenditures for property, plant and equipment	(19)	(16)	(10)
Increase in investments and other assets	(207)	(6)	(5)
Purchase of trust assets	(65)	(70)	(75)
Proceeds from sales by trust	19	28	14
Increase in loans to affiliates, net	(23)	(189)	(229)
Cash provided by (used in) investing activities	(145)	772	(105)
Common stock dividends paid	(283)	(268)	(195)
Issuances of common stock	97	694	110
Repurchase of common stock	(37)	(95)	(5)
Issuances of long-term debt	--	--	625
Payment on long-term debt	(12)	(511)	(511)
Increase (decrease) in loans from affiliates, net	273	(762)	55
Other	29	--	(3)
Cash provided by (used in) financing activities	67	(942)	76
Increase (decrease) in cash and cash equivalents	244	160	(36)
Cash and cash equivalents, January 1	183	23	59
Cash and cash equivalents, December 31	$ 427	$ 183	$ 23

See notes to Condensed Financial Information of Parent.

Notes to Condensed Financial Information of Parent

Note 1. Basis of Presentation

Certain prior-year amounts have been reclassified to conform to the current year's presentation. Subsidiary Earnings on the Condensed Statements of Income include income (loss) of $315 million, $7 million and ($20) million related to discontinued operations for 2006, 2005, and 2004, respectively.

Note 2. Long-term Debt

(Dollars in millions)	December 31, 2006	2005
4.621% notes May 17, 2007	$ 600	$ 600
6.0% notes February 1, 2013	400	400
Notes at variable rates after fixed-to-floating swap		
(8.3% at December 31, 2006) March 1, 2010	300	300
Notes at variable rates (5.85% at December 31, 2006) May 21, 2008	300	300
4.75% notes May 15, 2009	300	300
7.95% notes March 1, 2010	200	200
Employee Stock Ownership Plan		
Bonds at 4.213% November 1, 2014	82	82
Bonds at variable rates (5.9% at December 31, 2006)		
November 1, 2014	10	22
Market value adjustments for interest rate swap, net		
(expires March 1, 2010)	(1)	1
	2,191	2,205
Current portion of long-term debt	(600)	--
Unamortized discount on long-term debt	(1)	(2)
	$ 1,590	$ 2,203

Maturities of long-term debt are $600 million in 2007, $300 million in 2008, $300 million in 2009, $500 million in 2010 and $492 million thereafter.

Additional information on Sempra Energy's long-term debt is provided in Note 5 of the notes to Consolidated Financial Statements.

Note 3. Contingencies and Commitments

For material contingencies and guarantees related to Sempra Energy, refer to Note 15 of the notes to Consolidated Financial Statements.

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. Felsinger
Donald E. Felsinger
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. Felsinger Chairman and Chief Executive Officer	/s/ Donald E. Felsinger	February 15, 2007
Principal Financial Officer: Mark A. Snell Executive Vice President and Chief Financial Officer	/s/ Mark A. Snell	February 15, 2007
Principal Accounting Officer: Joseph A. Householder Senior Vice President, Controller and Chief Tax Counsel	/s/ Joseph A. Householder	February 15, 2007
Directors: Donald E. Felsinger, Chairman	/s/ Donald E. Felsinger	February 15, 2007
James G. Brocksmith, Jr., Director	/s/ James G. Brocksmith, Jr.	February 15, 2007
Richard A. Collato, Director	/s/ Richard A. Collato	February 15, 2007
Wilford D. Godbold, Jr., Director	/s/ Wilford D. Godbold, Jr.	February 15, 2007
William D. Jones, Director	/s/ William D. Jones	February 15, 2007
Richard G. Newman, Director	/s/ Richard G. Newman	February 15, 2007
William G. Ouchi, Director	/s/ William G. Ouchi	February 15, 2007
William C. Rusnack, Director	/s/ William C. Rusnack	February 15, 2007
William P. Rutledge, Director	/s/ William P. Rutledge	February 15, 2007

Neal E. Schmale, Director	/s/ Neal E. Schmale	February 15, 2007

EXHIBIT INDEX

The Registration Statements and Forms S-8, 8-K, 10-K and 10-Q referred to herein 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), Commission File Number 1-1402 (Southern California Gas Company), Commission File Number 1-11439 (Enova Corporation) and/or Commission File Number 333-30761 (SDG&E Funding LLC).

3.a The following exhibits relate to Sempra Energy and its subsidiaries

Exhibit 3 -- Bylaws and Articles of Incorporation

Bylaws

3.01 Amended and Restated Bylaws of Sempra Energy effective May 26, 1998 (incorporated by reference from the Registration Statement on Form S-8 Sempra Energy Registration Statement No. 333-56161 dated June 5, 1998, Exhibit 3.2).

Articles of Incorporation

3.02 Amended Articles of Incorporation of Sempra Energy effective May 8, 2006 (June 30, 2006 Form 10-Q, Exhibit 3.01)

Exhibit 4 -- Instruments Defining the Rights of Security Holders, Including Indentures

The company agrees to furnish a copy of each such instrument to the Commission upon request.

4.01 Description of rights of Sempra Energy Common Stock (incorporated by reference from Sempra Energy Amended and Restated Articles of Incorporation effective May 8, 2006, Exhibit 3.02 above).

San Diego Gas & Electric Company

4.02 Mortgage and Deed of Trust dated July 1, 1940 (incorporated by reference from SDG&E Registration Statement No. 2-49810, Exhibit 2A).

4.03 Ninth Supplemental Indenture dated as of August 1, 1968 (incorporated by reference from SDG&E Registration Statement No. 2-68420, Exhibit 2D).

4.04 Sixteenth Supplemental Indenture dated August 28, 1975 (incorporated by reference from SDG&E Registration Statement No. 2-68420, Exhibit 2E).

4.05 Thirtieth Supplemental Indenture dated September 28, 1983 (incorporated by reference from SDG&E Registration Statement No. 33-34017, Exhibit 4.3).

Southern California Gas Company

4.06 First Mortgage Indenture of Southern California Gas Company to American Trust Company dated as of October 1, 1940 (Registration Statement No. 2-4504 filed by Southern California Gas Company on September 16, 1940, Exhibit B-4).

4.07 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).

4.08 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).

4.09 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of December 1, 1956.

4.10 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank dated as of June 1, 1965.

4.11 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).

4.12 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).

4.13 Supplemental Indenture of Southern California Gas Company to 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 Gas Company 1984 Form 10-K, Exhibit 4.29).

Exhibit 10 -- Material Contracts

10.01 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).

10.02 Form of Nevada Antitrust Settlement Agreement dated as of January 4, 2006 (Form 8-K filed on January 5, 2006, Exhibit 99.2).

10.03 Energy Purchase Agreement between Sempra Energy Resources and the California Department of Water Resources, executed May 4, 2001 (2001 Form 10-K, Exhibit 10.01).

San Diego Gas & Electric Company

10.04 Operating Agreement between San Diego Gas & Electric and the California Department of Water Resources dated April 17, 2003 (Sempra Energy 2003 Form 10-K, Exhibit 10.06).

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

10.06 Transition Property Purchase and Sale Agreement dated December 16, 1997 (incorporated by reference from Form 8-K filed by SDG&E Funding LLC on December 23, 1997, Exhibit 10.1).

10.07 Transition Property Servicing Agreement dated December 16, 1997 (incorporated by reference from Form 8-K filed by SDG&E Funding LLC on December 23, 1997, Exhibit 10.2).

Compensation

10.08 Sempra Energy Excess Cash Balance Plan dated December 5, 2005.

10.09 Form of Sempra Energy 1998 Non-Employee Directors' Stock Plan Nonqualified Stock Option Agreement.

10.10 Form of Sempra Energy Severance Pay Agreement (2004 Form 10-K, Exhibit 10.10).

10.11 Sempra Energy 2005 Deferred Compensation Plan (Form 8-K filed on December 7, 2004, Exhibit 10.1).

10.12 Sempra Energy Employee Stock Incentive Plan (September 30, 2004 Form 10-Q, Exhibit 10.1).

10.13 Sempra Energy Amended and Restated Executive Life Insurance Plan (September 30, 2004 Form 10-Q, Exhibit 10.2).

10.14 Form of Sempra Energy 1998 Long Term Incentive Plan Performance-Based Restricted Stock Award (September 30, 2004 Form 10-Q, Exhibit 10.4).

10.15 Form of Sempra Energy 1998 Long Term Incentive Plan Nonqualified Stock Option Agreement (September 30, 2004 Form 10-Q, Exhibit 10.5).

10.16 Sempra Energy Supplemental Executive Retirement Plan (September 30, 2004 Form 10-Q, Exhibit 10.7).

10.17 Neal Schmale Restricted Stock Award Agreement (September 30, 2004 Form 10-Q, Exhibit 10.8).

10.18 Severance Pay Agreement between Sempra Energy and Donald E. Felsinger (September 30, 2004 Form 10-Q, Exhibit 10.9).

10.19 Severance Pay Agreement between Sempra Energy and Neal Schmale (September 30, 2004 Form 10-Q, Exhibit 10.10).

10.20 Sempra Energy Executive Personal Financial Planning Program Policy Document (September 30, 2004 Form 10-Q, Exhibit 10.11).

10.21 2003 Sempra Energy Executive Incentive Plan B (2003 Form 10-K, Exhibit 10.10).

10.22 2003 Executive Incentive Plan (June 30, 2003 Form 10-Q, Exhibit 10.1).

10.23 Amended and Restated Sempra Energy 1998 Long-Term Incentive Plan (June 30, 2003 Form 10-Q, Exhibit 10.2).

10.24 Sempra Energy Executive Incentive Plan effective January 1, 2003 (2002 Form 10-K, Exhibit 10.09).

10.25 Amended Sempra Energy Retirement Plan for Directors (2002 Form 10-K, Exhibit 10.10).

10.26 Amended and Restated Sempra Energy Deferred Compensation and Excess Savings Plan (September 30, 2002 Form 10-Q, Exhibit 10.3).

10.27 Sempra Energy Executive Security Bonus Plan effective January 1, 2001 (2001 Form 10-K, Exhibit 10.08).

10.28 Sempra Energy 1998 Non-Employee Directors' Stock Plan (incorporated by reference from the Registration Statement on Form S-8 Sempra Energy Registration Statement No. 333-56161 dated June 5, 1998, Exhibit 4.2).

Nuclear

San Diego Gas & Electric Company

10.29 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).

10.30 Amendment No. 1 to the Qualified CPUC Decommissioning Master Trust Agreement dated September 22, 1994 (see Exhibit 10.29 above)(1994 SDG&E Form 10-K, Exhibit 10.56).

10.31 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 10.29 above)(1994 SDG&E Form 10-K, Exhibit 10.57).

10.32 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 10.29 above)(1996 SDG&E Form 10-K, Exhibit 10.59).

10.33 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 10.29 above)(1996 SDG&E Form 10-K, Exhibit 10.60).

10.34 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 10.29 above)(1999 SDG&E Form 10-K, Exhibit 10.26).

10.35 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 10.29 above)(1999 SDG&E Form 10-K, Exhibit 10.27).

10.36 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 10.29 above) (2003 Sempra Energy Form 10-K, Exhibit 10.42).

10.37 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).

10.38 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 10.37 above)(1996 SDG&E Form 10-K, Exhibit 10.62).

10.39 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 10.37 above)(1996 SDG&E Form 10-K, Exhibit 10.63).

10.40 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 10.37 above)(1999 SDG&E Form 10-K, Exhibit 10.31).

10.41 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 10.37 above)(1999 SDG&E Form 10-K, Exhibit 10.32).

10.42 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 10.37 above)(2003 Sempra Energy Form 10-K, Exhibit 10.48).

10.43 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).

10.44 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 -- Statement re: Computation of Ratios

12.01 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2006, 2005, 2004, 2003 and 2002.

Exhibit 13 -- Annual Report to Security Holders

13.01 Sempra Energy 2006 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 21 -- Subsidiaries

21.01 Schedule of Significant Subsidiaries at December 31, 2006.

Exhibit 23 -- Consent of Independent Registered Public Accounting Firm and Report on Schedule, page 36.

Exhibit 31 -- Section 302 Certifications

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

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

Exhibit 32 -- Section 906 Certifications

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

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

GLOSSARY

The Act	The Medicare Prescription Drug, Improvement and Modernization Act of 2003
AEG	Atlantic Electric & Gas
AEP	American Electric Power
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AMI	Advanced Metering Infrastructure
APBO	Accounting Principles Board Opinion
ARB	Accounting Research Bulletin
bcf	Billion Cubic Feet (of natural gas)
Black-Scholes Model	Black-Scholes Option-Pricing Model
BP	British Petroleum
Calpine	Calpine Corporation
CARB	California Air Resources Board
CEC	California Energy Commission
CEQA	California Environmental Quality Act
CFE	Comisión Federal de Electricidad
Coleto Creek	Coleto Creek Power Station
Conoco	ConocoPhillips
CPUC	California Public Utilities Commission
DOE	Department of Energy
DRA	Division of Ratepayer Advocates
DSM	Demand Side Management
DWR	Department of Water Resources
EAP	Energy Action Plan

Edison	Southern California Edison Company
EITF	Emerging Issues Task Force
Elk Hills	Elk Hills Power
EMFs	Electric and Magnetic Fields
EPS	Earnings per Share
ERMG	Energy Risk Management Group
ERMOC	Energy Risk Management Oversight Committee
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation Number
GAAP	Accounting Principles Generally Accepted in the United States of America
GCIM	Gas Cost Incentive Mechanism
GHG	Greenhouse Gas
GRC	General Rate Case
IID	Imperial Irrigation District
IOUs	Investor-Owned Utilities
IRS	Internal Revenue Service
ISFSI	Independent Spent Fuel Storage Installation
ISO	Independent System Operator
KMP	Kinder Morgan Energy Partners, L.P.
Liberty	Liberty Gas Storage
LIFO	Last-In First-Out inventory costing method
LNG	Liquefied Natural Gas
Luz del Sur	Luz del Sur S.A.A.

MLC	Merrill Lynch Commodities, Inc.
mmbtu	Million British Thermal Units (of natural gas)
MOA	Memorandum of Agreement
MSCI	Morgan Stanley Capital International
MW	Megawatt
Ninth Circuit Court of Appeals	U.S. Court of Appeals for the Ninth Circuit
NRC	Nuclear Regulatory Commission
OIR	Order Instituting Rulemaking
OMEC	Otay Mesa Energy Center, LLC
OTC	Over-the-counter
Overthrust	Overthrust Pipeline Company
PBR	Performance-Based Regulation
PE	Pacific Enterprises
PGE	Portland General Electric Company
PIER	Public Interest Energy Research
PPA	Power Purchase Agreement
ProLiance	ProLiance Transportation and Storage, LLC
PRP	Potentially Responsible Party
PSEG	PSEG Global
PX	Power Exchange
QF	Qualifying Facility
QUIPS	Cumulative Quarterly Income Preferred Securities
RD&D	Research, Development and Demonstration
REX	Rockies Express Pipeline
RMC	Risk Management Committee

Rockies Express	Rockies Express Pipeline LLC
ROE	Return on Equity
SAB	Staff Accounting Bulletin
SCAQMD	South Coast Air Quality Management District
SDG&E	San Diego Gas & Electric Company
SEC	Securities and Exchange Commission
Sempra Utilities	Southern California Gas Company and San Diego Gas & Electric Company
SEPCO	Sempra Energy Production Company
SFAS	Statement of Financial Accounting Standards
SoCalGas	Southern California Gas Company
SONGS	San Onofre Nuclear Generating Station
SURMD	Sempra Utilities' Risk Management Department
TDM	Termoeléctrica de Mexicali
Topaz	Topaz Power Partners
Trust	ESOP Trust
Twin Oaks	Twin Oaks Power Plant
VaR	Value at Risk

EXHIBIT 4.09

This Supplemental Indenture is, among other things,
A MORTGAGE OF CHATTELS

Southern California Gas Company

TO

American Trust Company

TRUSTEE

SUPPLEMENTAL INDENTURE

DATED AS OF DECEMBER 1, 1956

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This Supplemental Indenture is, among other things,

A MORTGAGE OF CHATTELS.

THIS SUPPLEMENTAL INDENTURE, dated as of the 1st day of December, 1956, made and entered into by and between SOUTHERN CALIFORNIA GAS COMPANY, a corporation duly organized and existing under the laws of the State of California, and having its principal place of business in the City of Los Angeles, State of California (hereinafter sometimes called the "Corporation"), party of the first part, and AMERICAN TRUST COMPANY, a corporation duly organized and existing under and by virtue of the laws of California, and having its principal place of business in the City and County of San Francisco, in said State (hereinafter sometimes called the "Trustee"), party of the second part,

WITNESSETH:

WHEREAS, the Corporation has heretofore executed and delivered to the Trustee a certain Indenture (hereinafter sometimes called the "Original Indenture") dated October 1, 1940, to secure bonds of the Corporation designated generally as its "First Mortgage Bonds" to be issued from time to time in one or more series, and the Corporation has heretofore executed and delivered to the Trustee indentures dated, respectively, as of July 1, 1947, May 1, 1948, June 1, 1950, April 1, 1952, August 1, 1955, and June 1, 1956, supplemental to the Original Indenture; the Original Indenture and said Supplemental Indentures dated, respectively, as of July 1, 1947, May 1, 1948, June 1, 1950, April 1, 1952, and August 1, 1955 (said Supplemental Indenture dated as of August 1, 1955, being hereinafter sometimes referred to as the "Amendment of 1955"), being recorded in the office of the County Recorder of each of the Counties listed below, in the Official Records thereof, as stated in said Supplemental Indenture dated as of June 1, 1956, which last mentioned Supplemental Indenture is recorded in the offices of the County Recorders of the Counties in the State of California as follows:

County	Reference		
Los Angeles	Book	51271,page	346,Official Records
Kern	Book	2612,page	119,Official Records
Tulare	Vol.	1925,page	360,Official Records
Kings	Vol.	650,page	104,Official Records
Ventura	Book	1408,page	435,Official Records
Fresno	Book	3774,page	127,Official Records
Orange	Book	3523,page	402,Official Records
Riverside	Book	1917,page	186,Official Records
San Bernardino	Book	3947,page	63,Official Records
Imperial	Book	944,page	376,Official Records
Santa Barbara	Book	1380,page	587,Official Records

WHEREAS, bonds of the Corporation of six series designated, respectively, as its "First Mortgage Bonds, 3 1/4% Series due 1970", "First Mortgage Bonds, 2 7/8% Series due 1977", "First Mortgage Bonds, 3 1/4% Series due 1978", "First Mortgage Bonds, 2 7/8% Series due 1980", "First Mortgage Bonds, Series A, due 1982" and "First Mortgage Bonds, Series B, due 1981" have heretofore been issued as a part of the First Mortgage Bonds referred to in the Original Indenture and are now outstanding, each such series of bonds, unless and until the taking of further appropriate action by the Board of Directors of the Corporation, being without limitation as to agg regate authorized principal amount; and

WHEREAS, the Corporation desires to supplement and amend the Original Indenture, as heretofore amended, supplemented and now in effect, as hereinafter set forth; and

WHEREAS, the execution and delivery of this Supplemental Indenture has been duly authorized by resolution of the Board of Directors of the Corporation, has been duly consented to in writing pursuant to Section 16.05 of the Original Indenture by the holders of not less than two-thirds in principal amount of all the bonds now outstanding under the Original Indenture as heretofore supplemented and has been duly authorized and approved by the Public Utilities Commission of the State of California; and

WHEREAS, the Corporation has requested the Trustee to join in the execution and delivery of this Supplemental Indenture; and

WHEREAS, all other acts and things necessary to make this Supplemental Indenture (hereinafter, and in the portions of the Original Indenture which are hereby amended, being for convenience sometimes referred to as the "Amendment of 1956") a valid, binding and legal instrument, and a valid, binding and legal amendment of the Original Indenture, having been duly performed and done :

Now, THEREFORE, in consideration of the premises it is hereby agreed and provided:

ARTICLE I.

AMENDMENTS TO INDENTURE.

The Original Indenture, as heretofore amended, supplemented and now in effect, is hereby further amended and supplemented as follows (page and section references being to the printed forms of the Original Indenture, or the Amendment of 1955, as the case may be, as originally executed) :

SECTION 1.01. In the definition of "net bondable value of property additions" in Section 1.02 of the Original Indenture:

(a) Amend that portion of said definition which precedes paragraph (1) thereof (page 92 of Original Indenture) to read as follows:

"The term net bondable value of property additions' shall mean, at any particular time, the aggregate of the cost to the Corporation or, as to such property additions which have not been retired, the fair value to the Corporation, if the fair value is less than cost, of all gross property additions purchased, constructed or otherwise acquired by the Corporation, after deducting therefrom the amounts specified in the following paragraphs (1), (2) and (3) and the greater of the amounts specified in the following paragraphs (A) or (B) after each of the amounts specified in said paragraphs (A) and (B) has been reduced by the amount of all credits taken in 1956 and in subsequent years pursuant to subdivision (a) of Section 3.02 on the basis of cash and bonds delivered to the Trustee pursuant to Section 8.01:"

(b) Amend clause (iv) of paragraph (1) of said definition, as heretofore amended by Section 1.05(a), page 4, of the Amendment of 1955, to read as follows:

"(iv) the amount by which all credits taken pursuant to subdivision (b) of Section 8.02 on the basis of property additions shall exceed whichever is the greater of the amounts specified in paragraphs (A) or (B) of this definition;"

SECTION 1.02. In subdivision (b) of Section 4.04 of the Original Indenture :

(a) Amend clause (iv) of paragraph (5), as heretofore amended by Section 1.13, pages 6-7, of the Amendment of 1955, to read as follows:

"(iv) the amount by which all credits taken during the total retirement period pursuant to subdivision (b) of Section 3.02 on the basis of property additions shall exceed whichever is the greater of the two items stated pursuant to subdivisions (3) and (4) above."

(b) Amend clause (iii) of paragraph (8) of said subdivision (b), at pages 122-3 of the Original Indenture and as heretofore amended by Section 1.03, page 4, of the Amendment of 1955, to read as follows:

"(iii) in the case of the first such certificate filed subsequent to the date of execution of the Amendment of 1956, the excess of the amount stated pursuant to sub-

Division (3) above (Depreciation and Retirement Reserves) reduced as hereafter in this clause (iii) provided, or of the amount stated pursuant to subdivision (4) above (Property Retired) as similarly reduced, whichever of said amounts as so reduced is the greater, over the amount of the greater of such two items stated in the engineer's certificate dated May 23, 1956, heretofore filed; and in the case of subsequent certificates, the amount by which the greater of the two items stated pursuant to said subdivisions (3) and (4) above in the current certificate then being filed, after each of such items has been reduced as hereafter in this clause (iii) provided, exceeds the amount of the greater of such two items stated in the most recent certificate previously filed as similarly reduced; it being hereby provided that each amount stated pursuant to such subdivisions (3) or (4) above (except with respect to said engineer's certificate dated May 23, 1956) shall be reduced by the amount of all credits taken in 1956 and in subsequent years to the date of the particular certificate pursuant to subdivision (a) of Section 8.02 on the basis of cash and bonds delivered to the Trustee pursuant to Section 8.01;"

ARTICLE 11.

MISCELLANEOUS.

SECTION 2.01. Except as amended, supplemented or modified by this Amendment of 1956, the Original Indenture and the above-mentioned Supplemental Indentures dated, respectively, as of July 1, 1947, May 1, 1948, June 1, 1950, April 1, 1952, August 1, 1955, and June 1, 1956, as now in effect, are in all respects ratified and confirmed by this Amendment of 1956, and this Amendment of 1956 and all of its provisions shall be deemed to be a part of the Original Indenture.

SECTION 2.02. The recitals herein contained are made by the Corporation and not by the Trustee.

SECTION 2.03. All references in the Original Indenture, or in the above-mentioned Supplemental Indentures dated, respectively, as of July 1, 1947, May 1, 1948, June 1, 1950, April 1, 1952, August 1, 1955, and June 1, 1956, or in this Amendment of 1956, to any Article, Section, subdivision or provision of the Original Indenture which is amended as hereinabove provided shall be deemed, unless the context otherwise requires, references to such Article, Section, subdivision or provision of the Original Indenture as so amended.

SECTION 2.04. The date of this instrument is intended as and for a date for the convenient identification of this instrument and is not intended to indicate that this instrument was executed and delivered on said date; it being hereby provided that this instrument may be executed and delivered either on said date, or before or after said date, and this instrument being in fact executed and delivered on the dates of the respective certificates of acknowledgment hereto attached.

SECTION 2.05. If any provision of this instrument limits, qualifies or conflicts with any other provision hereof or of the Original Indenture, as amended, supplemented and now in effect, which is required to be included herein or therein by any of Sections 3.10 to 3.17, inclusive, of the Trust Indenture Act of 1939, such required provision shall control.

SECTION 2.06. The Trustee executes this instrument solely on the condition that, in addition to any and all rights, powers, privileges and immunities given to it by this instrument, it shall have and enjoy with respect to this instrument all of the rights, powers, privileges and immunities as set forth in the Original Indenture.

SECTION 2.07. This instrument may be simultaneously executed in several counterparts and all of said counterparts, executed and delivered each as an original, shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Southern California Gas Company has caused this instrument to be signed in its corporate name, by its President or one of its Vice Presidents, and its Secretary or one of its Assistant Secretaries, and its corporate seal to be hereunto duly affixed, and American Trust Company, in token of its acceptance of the trust hereby created, has caused this instrument to be signed in its corporate name by its President or one of its Vice Presidents, and its Secretary or one of its Assistant Secretaries, and its corporate seal to be hereunto duly affixed, all as of the day and year first above written.

SOUTHERN CALIFORNIA GAS COMPANY,

By W. J.HERRMAN
Vice President

(Corporate Seal)

By S. W. BINCKLEY
Secretary

AMERICAN TRUST COMPANY,

By J. G. HATFIELD
Vice President

(Corporate Seal)

By C. W. CADIGAN
Assistant Secretary

STATE OF CALIFORNIA
COUNTY OF Los ANGELES ss.

On this 28th day of December, 1956, before me, LILLIAN ABRAMS, a Notary Public in and for the County of Los Angeles, State of California, residing therein, duly commissioned and sworn, personally appeared W. J. HERRMAN, known to me to be a Vice President, and S. W. BINCKLEY, known to me to be the Secretary, of SOUTHERN CALIFORNIA GAS COMPANY, one of the corporations named in and which executed the foregoing instrument, known to me to be the persons who executed the within instrument on behalf of said Corporation, and acknowledged to me that said Corporation executed the same, and acknowledged to me that said Corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

LILLIAN ABRAMS
Notary Public in and for the County of Los Angeles.
(NOTARIAL SEAL) State of California

My Commission Expires April 8, 1957

STATE OF CALIFORNIA

ss.

CITY AND COUNTY OF SAN FRANCISCO

On this 31st day of December, 1956, before me, HAZEL E. THOMPSON, a Notary Public in and for the City and County of San Francisco, State of California, residing therein, duly commissioned and sworn, personally appeared J. G. HATFIELD, known to me to be a Vice President, and C. W. CADIGAN, known to me to be an Assistant Secretary, of AMERICAN TRUST COMPANY, one of the corporations named in and which executed the foregoing instrument, known to me to be the persons who executed the within instrument on behalf of said Corporation, and acknowledged to me that said Corporation executed the same, and acknowledged to me that said Corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

HAZEL E. THOMPSON

Notary Public in and for the City and County of
San Francisco, State of California

(NOTARIAL SEAL)

My Commission Expires October 14, 1958

RECORDATION DATA

The foregoing Supplemental Indenture from Southern California Gas Company to American Trust Company, Trustee, dated as of December 1, 1956, was recorded in the following Counties of California (and indexed in each of said Counties as a deed, mortgage, trust deed, chattel mortgage, assignment, and power of attorney) on the respective dates, and at the respective places indicated in the following schedule:

County	Date		Reference
Los Angeles	January 4, 1957	Book	53278, Page 166, Official Records
Kern	January 4, 1957	Book	2711, Page 398, Official Records
Tulare	January 4, 1957	Vol.	1966, Page 510, Official Records
Kings	January 4, 1957	Vol.	668, Page 447, Official Records
Ventura	January 4, 1957	Book	1471, Page 516, Official Records
Fresno	January 4, 1957	Book	3864, Page 555, Official Records
Orange	January 4, 1957	Book	3760, Page 375, Official Records
Riverside	January 4, 1957	Book	2019, Page 210, Official Records
San Bernardino	January 4, 1957	Book	4123, Page 539, Official Records
Imperial	January 4, 1957	Book	959, Page 228, Official Records
Santa Barbara	January 4, 1957	Book	1422, Page 19, Official Records

EXHIBIT 4.10

Southern California Gas Company

TO

Wells Fargo Bank

(formerly named American Trust Company)

TRUSTEE

SUPPLEMENTAL INDENTURE

DATED AS OF JUNE 1, 1965

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dated, respectively, as of June 1, 1956 and December 1, 1956 are so recorded as stated in said Supplemental Indenture dated as of July 1, 1957; said Supplemental Indenture dated as of July 1, 1957 is so recorded as stated in said Supplemental Indenture dated as of October 1, 1959; said Supplemental Indenture dated as of October 1, 1959 is so recorded as stated in said Supplemental Indenture dated as of July 1, 1963; said Supplemental Indenture dated as of July 1, 1963, is so recorded as stated in said Supplemental Indenture dated as of September 1, 1964; and said Supplemental Indenture dated as of September 1, 1964 is recorded in the offices of the County Recorders in the Counties of the State of California as follows:

County	Reference	
Los Angeles	Book	D2615,Page 874,Official Records
Kern	Book	3762,Page 644,Official Records
Tulare	Vol.	2534,Page 334,Official Records
Kings	Vol.	859,Page 819,Official Records
Ventura	Book	2619,Page 523,Official Records
Fresno	Book	5060,Page 545,Official Records
Orange	Book	7206,Page 631,Official Records
Riverside	Book	3793,Page 107,Official Records
San Bernardino	Book	6226,Page 1, Official Records
Imperial	Book	1190,Page 879,Official Records
Santa Barbara	Book	2068,Page 470,Official Records

WHEREAS, bonds of the Corporation of eight series designated, respectively, as its "First Mortgage Bonds, 31/4% Series due 1970", "First Mortgage Bonds, 27/s% Series due 1977", "First Mortgage Bonds, 31/4% Series due 1978", "First Mortgage Bonds, 27/s% Series due 1980", "First Mortgage Bonds, Series A, due 1982", "First Mortgage Bonds, Series B, due 1981", "First Mortgage Bonds, Series E, due 1988", and "First Mortgage Bonds, Series F, due 1989" have heretofore been issued as a part of the First Mortgage Bonds referred to in the Original Indenture and are now outstanding, each such series of bonds, unless and until the taking of further appropriate action by the Board of Directors of the Corporation, being without limitation as to aggregate authorized principal amount; and

WHEREAS, the Corporation desires to supplement and amend the Original Indenture, as heretofore amended, supplemented and now in effect, as hereinafter set forth; and

WHEREAS, the execution and delivery of this Supplemental Indenture has been duly authorized by resolution of the Board of Directors of the Corporation, has been duly authorized and approved by the Public Utilities Commission of the State of California and has been duly consented to in writing pursuant to Section 16.05 of the Original Indenture by the holders of the required principal amount of said outstanding bonds; and

WHEREAS, the Corporation has requested the Trustee to join in the execution and delivery of this Supplemental Indenture; and

WHEREAS, all other acts and things necessary to make this Supplemental Indenture a valid, binding and legal instrument, and a valid, binding and legal amendment of and supplement to the Original Indenture, have been duly performed and done:

Now, THEREFORE, in consideration of the premises it is hereby agreed and provided:

ARTICLE I

AMENDMENTS AND SUPPLEMENTAL PROVISIONS

The Original Indenture, as heretofore amended, supplemented and now in effect, is hereby further amended and supplemented as follows (page and section references being to the Original Indenture in form as now recorded in the offices of the County Recorders hereinabove referred to):

SECTION 1.01. The Original Indenture is hereby amended so as to add thereto, immediately following ARTICLE II, a new ARTICLE II-A, reading as follows:

ARTICLE II-A

APPOINTMENT and POWERS OF AUTHENTICATING AGENTS
CERTAIN PERMISSIBLE VARIATIONS
IN THE TERMS OF BONDS OF THE SAME SERIES

SECTION 2a.01. Notwithstanding that any of the other terms or provisions of the Indenture, or any of the terms or provisions of any of the bonds now or hereafter outstanding, may to any extent or in any way be contrary to or may vary from any of the terms or provisions of this Section 2a.01:

(a) At any time or from time to time the Corporation may appoint an authenticating agent or agents. Each such appointment shall become effective when the authenticating agent shall have filed with the Corporation and the Trustee a written acceptance of the appointment, and shall have furnished the Trustee, in form satisfactory to the Trustee, a written agreement to indemnify the Trustee against any loss, liability or expense incurred by the Trustee by reason of the acts, or failure to act, of the authenticating agent, including the costs and expenses of defending against any claim of liability. Thereupon the authenticating agent so appointed shall without further act or deed become vested with, and while holding office pursuant to such appointment shall be authorized to exercise in the manner and upon the conditions provided in this Section 2a.01, the following powers, viz:

1. the power to authenticate and deliver, with like effect as if authenticated and delivered by the Trustee, bonds of any series (including series heretofore issued) hereafter to be authenticated pursuant to Sections 2.03, 2.06, 2.07, 15.02 or 16.05 of the Original Indenture

upon the same terms and conditions as those upon which the Trustee is authorized to act by such Sections, except that no bond shall be authenticated by an authenticating agent pursuant to said Section 15.02 in any transaction which, after giving effect to this Supplemental Indenture, is not covered by any of said Sections 2.03, 2.06, 2.07 or 16.05. No such authenticating agent shall authenticate and/or deliver any bond pursuant to any of the provisions of Article IV or Section 2.09 of the Original Indenture.

2. the power to receive, cancel, retain in safekeeping or otherwise deal with any bond presented to the authenticating agent for any purpose specified in said Section 2.03, and, in any manner provided in said Section, to deal with any bond authenticated and delivered by the authenticating agent pursuant to subparagraph 1 of this Section 2a.01, such power being upon the same conditions prescribed in Section 2.03 of the Original Indenture, as amended by Section 1.03 hereof, with respect to similar action therein authorized to be taken by the Trustee under the provisions of said Section 2.03, as so amended, and being in addition to that vested in the authenticating agent by the provisions of said subparagraph 1 but not including the power therein mentioned to approve arrangements for the safekeeping of any bonds.

The vesting as aforesaid of the foregoing powers in any authenticating agent shall not in any way divest the Trustee of the same or any similar powers conferred upon it by any of the provisions of the Indenture, and all such powers may be exercised by either an authenticating agent or the Trustee.

(b) All bonds of any series now or hereafter existing which are hereafter authenticated by either the Trustee or an authenticating agent pursuant to any of the provisions of the

Indenture shall bear endorsed thereon the form of certificate of authentication as provided in the Indenture which form of certificate, however, shall make provision for signature by the Trustee or an authenticating agent. Each of such bonds hereafter so authenticated and delivered shall contain a statement that such bond shall not become valid or obligatory for any purpose or be entitled to any benefit under the Indenture until Wells Fargo Bank, or its successor as Trustee under the Indenture, or an authenticating agent, shall have signed the form of certificate endorsed on such bond.

SECTION 2a.02. Each authenticating agent shall at all times be a corporation organized and doing business under the laws of the United States or of any State or Territory or of the District of Columbia authorized under such laws to act as authenticating agent, having a combined capital and surplus of at least ten million dollars, subject to supervision or examination by Federal, State, Territorial or District of Columbia authority. Any corporation into which any authenticating agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which any authenticating agent shall be a party, or any corporation succeeding to the business of any authenticating agent, shall, if it meets the foregoing requirements, become and be the authenticating agent without any further act on i ts part or on the part of the Corporation. Any authenticating agent may at any time resign by giving written notice of resignation to the Corporation. The Corporation may at any time terminate the agency of any authenticating agent by giving written notice of termination to such authenticating agent. Upon receiving such a notice of resignation or upon the giving of notice of such termination, or in case at any time any authenticating agent shall cease to be qualified under the foregoing requirements, the powers hereunder of such agent shall terminate except that any bond authenticated and delivered by an authenticating agent before it receives notice of termination of its agency shall be for all purposes of the Indenture deemed validly authenticated. Forthwith upon any aforesaid termination of its powers, such authenticating agent shall as directed by the Corporation deliver to the Trustee, or to another authenticating agent, all records, unauthenticated bonds and cancelled bonds then held by such authenticating agent and all bonds then held by it in safekeeping pursuant to the first paragraph of Section 2.03 of the Original Indenture as amended by Section 1.03 hereof. The Corporation shall notify the Trustee promptly and in writing of the dispatch of a notice terminating the authority of an authenticating agent, of the receipt from an authenticating agent of notice of resignation, or of any knowledge which the Corporation has obtained indicating that an existing authenticating agent is no longer qualified under the provisions of this Section 2a.02.

SECTION 1.02. The following paragraph is hereby added at the end of Section 2.03 (page 106) :

> Coupon bonds of each of the following series, namely, the 3 ¼ % Series due 1970, the 2 7/8 % Series due 1977, the 3 1/4 % Series due 1978, the 2 7/8 % Series due 1980 and Series A, due 1982, may, in each case, be exchanged for a like aggregate principal amount of fully registered bonds without coupons of authorized denomination or denominations of the same series upon payment of the charges and subject to the terms and conditions set forth in the Indenture.

SECTION 1.03. The last sentence of the first paragraph of Section 2.03 (page 105) is amended to read as follows:

> All bonds surrendered for exchange as aforesaid shall forthwith be cancelled by the Trustee or the authenticating agent, as the case may be, except that, if the Corporation shall so elect, any coupon bonds so surrendered may be retained uncancelled in safekeeping by either the Trustee or the authenticating agent under such arrangements as shall be approved by the Trustee and the Corporation. Any coupon bond so surrendered and retained uncancelled may be delivered by the Trustee or an authenticating agent as if it were a newly executed and authenticated bond.

SECTION 1.04. Section 2.04 of the Original Indenture (pages 106 and 107) is hereby amended to read as follows:

> SECTION 2.04. Books for the registration, transfer or exchange of bonds shall be kept by the Corporation at the principal office of the Trustee in the City and County of San Francisco, State of California, and/or at such other place or places elsewhere specified in the Indenture or specified in the bonds at the time issued and outstanding hereunder, or designated by the
>
> Corporation at any time or from time to time, as a place for registration and transfer of registered bonds without coupons, or of coupon bonds entitled to be registered as to principal, or as a place for exchange of any of the bonds. Such books shall be open to the inspection of the Trustee at all reasonable times.
>
> Upon presentation for such purpose at any such place of any bond entitled to be registered, transferred or exchanged at such place of presentation, the person in charge of such books shall, under such reasonable regulations as such person may prescribe, cause the transaction to be entered in such books so kept at said place. Neither the transfer of any registered bond of any series without coupons, nor the issuance of any such registered bond upon any such exchange, shall be permitted during the ten days next preceding each interest payment date for any bonds so presented, except at the option of the Corporation.
>
> No charge shall be made (a) for any such registration or transfer except such amount as may be necessary to cover any tax or governmental charge required to be paid with respect to such registration or transfer, or (b) for any such exchange except as otherwise provided in the Indenture or in the bond surrendered for exchange.
>
> Whenever any such registration, transfer or exchange shall be entered in the aforesaid books which are kept at said office of the Trustee or at any such other place where any such books are kept, the person in charge of such books shall promptly

notify the Trustee of such action by mail and, subject to the provisions of Sections 14.02 and 14.03 hereof, the Trustee shall be fully protected for all purposes in relying upon the advice so received.

Notwithstanding that any of the other terms or provisions of the Indenture, or any of the terms or provisions of any of the bonds now or hereafter outstanding, may to any extent or in any way be contrary to or may vary from any of the terms or provisions of this Section 2.04, whenever any exchange of bonds of the same series is made pursuant to the terms of such bonds and/or the Indenture, such exchange may be made at any place specified in such bonds and also at any other place, whether or not specified in such bonds, which at the time of such exchange is a place designated by the Corporation as a place for the making of such exchange, and in the event of any such exchange there shall be issued, authenticated and/or delivered such bond or bonds as the owner of the bond or bonds surrendered for exchange is entitled in accordance with the terms of the Indenture and/or the terms of the bond or bonds surrendered in such exchange.

SECTION 1.05. Section 2.05 of the Original Indenture (page 107) is hereby amended to read as follows:

SECTION 2.05. Before the delivery by the Trustee or any authenticating agent of any coupon bond, all matured coupons thereon shall be cut off and cancelled by the Trustee or the authenticating agent, as the case may be, and shall be delivered to the Corporation, except as otherwise required by Section 2.09 and except that if any coupon bond of any series is delivered upon any exchange of bonds at a time when interest is in default on the bonds of such series, the bond so delivered shall have attached thereto all coupons maturing after the latest date to which interest on the bonds of such series has been paid.

SECTION 1.06. The last sentence of Section 2.08 of the Original Indenture (page 109) is hereby amended to read as follows:

> The Corporation, the Trustee and each authenticating agent may deem and treat the bearer of any coupon bond which is not registered as to principal, and the bearer of any coupon for interest on any coupon bond, as the absolute owner of such bond or coupon for the purpose of receiving payment thereof, and for all other purposes whatsoever, whether such bond or coupon be overdue or not, and neither the Corporation, the Trustee nor any authenticating agent shall be affected by any notice to the contrary.

SECTION 1.07. The third sentence of the first paragraph of Section 2.09 of the Original Indenture (page 109) is hereby amended to read as follows:

> Any indemnity bond shall name as obligees the Corporation, the Trustee, and, if requested by the Corporation, any authenticating agent, fiscal agent and/or registrar.

SECTION 1.08. The last sentence of the first paragraph of Section 2.09 of the Original Indenture (page 110) is hereby amended to read as follows:

> The applicant for any substituted bond or coupon, or any such payment, shall, if requested by the Corporation as a condition precedent to the issue of any such substituted bond or coupon or any such payment, pay all expenses, including counsel fees, incurred by the Corporation, the Trustee and/or any authenticating agent in connection therewith.

SECTION 1.09. Section 2.10 (page 111) is hereby amended to read as follows:

> SECTION 2.10. Only such of the bonds as shall have been authenticated by the Trustee, or an authenticating agent,

> by signing the form of certificate of authentication endorsed thereon, and only the coupons, if any, for interest on such bonds, shall be valid or obligatory for any purpose or be secured by this Indenture, or be entitled to any lien or benefit hereunder; and such certificate of the Trustee, or of the authenticating agent, as the case may be, when so signed shall be conclusive evidence that the bond so authenticated was duly authorized for issue hereunder and that the holder or registered owner thereof (other than the Corporation itself) is entitled to the lien and security hereof and the benefit of the trusts hereby created.

SECTION 1.10. Subdivision (2) of the second paragraph of Section 14.19 of the Original Indenture (page 219) is hereby amended to read as follows:

> (2) The bonds secured hereby shall be authenticated and delivered by either the Trustee or an authenticating agent, but all powers, duties, obligations and rights, conferred upon the Trustee in respect of the custody of all bonds and other securities and of cash pledged or deposited hereunder, shall be exercised solely by Wells Fargo Bank or its successor in the trust hereunder, except as provided in Section 2.03 as amended by Section 1.03 hereof.

SECTION 1.11. Notwithstanding any of the terms or provisions of the Indenture, or any of the terms or provisions of any of the bonds now or hereafter outstanding, whenever in the Indenture or in any bond of any series (including series heretofore issued) hereafter authenticated and delivered under any provision of the Indenture reference is made to the execution, issue or signing of such bond by the Corporation or an officer thereof, or to the attestation of its corporate seal affixed thereto, the signature of the proper officer of the Corporation acting for any such purpose may be either a manual signature of such officer or a facsimile thereof.

SECTION 1.12. The recitals herein contained are made by the Corporation and not by the Trustee, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture.

SECTION 1.13. If any provision of this instrument limits, qualifies or conflicts with any other provision hereof or of the Original Indenture as amended, supplemented and now in effect, which is required to be included herein or therein by any of Sections 3.10 to 3.17, inclusive, of the Trust Indenture Act of 1939, such required provision shall control.

SECTION 1.14. The Trustee executes this instrument solely on the condition that, in addition to any and all rights, powers, privileges and immunities given to it by this instrument, it shall have and enjoy with respect to this instrument all of the rights, powers, privileges and immunities as set forth in the Original Indenture.

IN WITNESS WHEREOF, Southern California Gas Company has caused this Supplemental Indenture to be signed in its corporate name, by its President or one of its Vice Presidents, and its Secretary or one of its Assistant Secretaries, and its corporate seal to be hereunto duly affixed, and Wells Fargo Bank, in token of its acceptance of the trust hereby established, has caused this Supplemental Indenture to be signed in its corporate name by its President or one of its Vice Presidents, and its Secretary or one of its Assistant Secretaries, and its corporate seal to be hereunto duly affixed, all as of the day and year first above written.

SOUTHERN CALIFORNIA GAS COMPANY,

By F. M. BANKS

President

(Seal)

By S. W. BINCKLEY

Secretary

WELLS FARGO BANK,

By W. E. DANFORTH

Vice President

(Seal)

By R. A. PRESCOTT

Assistant Secretary

STATE OF CALIFORNIA
COUNTY OF Los ANGELES ss.

On this 19th day of May, 1965, before me, Lillian Abrams, a Notary Public of the State of California, duly commissioned and sworn, personally appeared F. M. BANKS, known to me to be President, and S. W. BINCKLEY, known to me to be the Secretary, of SOUTHERN CALIFORNIA GAS COMPANY, one of the corporations named in and which executed the foregoing instrument, known to me to be the persons who executed the within instrument on behalf of said Corporation, and acknowledged to me that said Corporation executed the same, and acknowledged to me that said Corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

LILLIAN ABRAMS
Notary Public of the State of California

My Commission Expires April 8, 1969

(Seal)

LILLIAN ABRAMS
NOTARY PUBLIC,
CALIFORNIA
PRINCIPAL OFFICE IN
LOS ANGELES COUNTY

STATE OF CALIFORNIA
CITY AND COUNTY OF SAN FRANCISCO ss.

On this 20th day of May, 1965, before me, Geraldine D. Cohen, a Notary Public of the State of California, duly commissioned and sworn, personally appeared W. E. DANFORTH, known to me to be a Vice President, and R. A. PRESCOTT, known to me to be an Assistant Secretary, Of WELLS FARGO BANK, one of the corporations named in and which executed the foregoing instrument, known to me to be the persons who executed the within instrument on behalf of said Corporation, and acknowledged to me that said Corporation executed the same, and acknowledged to me that said Corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

GERALDINE D. COHEN
Notary Public of the State of California

GERALDINE D. COHEN
Notary Public in and for the City & County
of San Francisco, State of California
My Commission Expires January 11, 1969

(Seal)

GERALDINE D. COHEN
NOTARY PUBLIC - CALIFORNIA
CITY AND COUNTY OF
SAN FRANCISCO

RECORDATION DATA

The foregoing Supplemental Indenture from Southern California Gas Company to Wells Fargo Bank, Trustee, dated as of June 1, 1965, was recorded in the following Counties of California (and indexed in each of said Counties as a deed, mortgage, trust deed, chattel mortgage, assignment and power of attorney) on the respective dates, and at the respective places indicated in the following schedule:

County	Date	Reference
Los Angeles	May 24, 1965	Book D2915, Page 398, Official Records
*Re-recorded	July 23, 1965	Book D2988, Page 534, Official Records
Kern	May 26, 1965	Book 3843, Page 699, Official Records
*Re-recorded	July 22, 1965	Book 3859, Page 912, Official Records
Tulare	May 24, 1965	Book 2588, Page 523, Official Records
Kings	May 24, 1965	Book 872, Page 874, Official Records
Ventura	May 24, 1965	Book 2793, Page 531, Official Records
Fresno	May 24, 1965	Book 5172, Page 299, Official Records
Orange	May 24, 1965	Book 7530, Page 852, Official Records
Riverside	May 24, 1965	Document No. 59744, Official Records (Microfilmed)
*Re-recorded	July 23, 1965	Document No. 85430, Official Records (Microfilmed)
San Bernardino	May 25, 1965	6397, Page 920, Official Records
*Re-recorded	July 23, 1965	6437, Page 944, Official Records
Imperial	May 24, 1965	1207, Page 728, Official Records
Santa Barbara	May 24, 1965	Book 2106, Page 41, Official Records

* For indexing to include chattel mortgage.

EXHIBIT 10.08

SEMPRA ENERGY
EXCESS CASH BALANCE PLAN

Ver: 3

OC\789027.5

1. **EFFECTIVE DATE**

July 1, 1998.

2. **PURPOSE**

This Plan serves three purposes. First, it provides benefits for certain employees in excess of the limitations on benefits under the Sempra Energy Account Plan ("Basic Plan") imposed by Section 415 of the Internal Revenue Code of 1986. The portion of the Plan providing these benefits is intended to be an "excess benefit plan" as defined in Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") . Second, it provides benefits for certain employees in excess of the limitations on benefits under the Basic Plan imposed by Section 401(a) (17) of the Internal Revenue Code of 1986 ("Code") . Third, the Plan provides benefits for certain employees whose benefits are decreased under the Basic Plan because of deferral of salary made under the Sempra Energy Deferred Compensation Plans("Deferred Compensation Plan& quot;).

3. **ADMINISTRATION**

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

4. **ELIGIBILITY**

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

5. **AMOUNT OF BENEFITS**

(A) **415 Make-Up**

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

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

(ii) the benefits which are paid to such employee or on his behalf to his beneficiary(ies) under the Basic Plan.

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

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

(i) the benefits which would be paid to such employee or on his behalf to his beneficiary(ies) under the Basic Plan, and, if applicable, to the participant, under subparagraph (a), if the provisions of such Plan were administered without regard to the covered compensation maximum set forth in the Basic Plan, over

(ii) the benefits which are paid to such employee or on his behalf to his beneficiary(ies) under the Basic Plan and, if applicable to the Participant, under subparagraph (a) .

6. **PAYMENT OF BENEFITS**

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

(i) In the case of an employee who is eligible for benefits under this Plan, and is a participant under the Sempra Energy Supplemental Executive Retirement Plan, as of December 31, 2005, the payment of benefits to such employee under this Plan shall be made in accordance with this subsection (A).

(ii) Unless the employee exercises the Lump Sump Option and receives a lump sum distribution from the Basic Plan, the payment of such employee’s Pre-Section 409A Benefit under this Plan shall be in the same payment form and at the same time as the payment of benefits to the employee or on his behalf to his beneficiary(ies) under the Basic Plan. In the event an employee receives a lump sum distribution from the Basic Plan, payment of such employee’s Pre-Section 409A Benefit under this Plan will be made in the form of a straight life annuity.

However, the employee may request, in writing, payment of such employee's Pre-Section 409A Benefit under one of the following alternatives provided such request is filed with Sempra Energy ("Company") at least three months prior to his Retirement Date or Termination under the Basic Plan:

(a) The employee may request payment of such employee's Pre-Section 409A Benefit under any of the other annuity options for which he is eligible under the Basic Plan. The amount of such optional annuity benefit with respect to his or her Pre-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The request will be subject to approval of the Company's Senior Human Resources Officer and, if approved, will be irrevocable as long as the employee receives a lump sum distribution from the Basic Plan.

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

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

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

(iii) The payment of such employee's Post-Section 409A Benefit under this Plan shall be in a lump sum following the employee's separation from service, unless the employee elects to receive an optional annuity form of payment under subparagraph (a). The amount of the employee's lump sum distribution with respect to his Post-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the actuarial factors specified in the Basic Plan.

(a) The employee may elect, in writing, payment following the employee's separation from service under any of the following annuity options: (I) a straight life annuity, (II) a joint and 50% survivor annuity, and (III) a joint and 100% survivor annuity. The amount of such optional annuity benefit with respect to such employee's Post-Section 409A Benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The election will be subject to approval of the Company's Senior Human Resources Officer, in his or her discretion, and, if approved, will be irrevocable (except as provided in subsection (C)).

(b) An employee's election under subparagraph (a) may be made with respect to an employee's Post-Section 409A Benefit on or before December 31, 2006 in accordance with the transitional relief under Section 409A of the Internal Revenue Code; provided, however, that an employee's election may not be made in 2006 with respect to payments the employee would otherwise receive in 2006, or to cause payments to be made in 2006.

(c) The joint and survivor annuity is only available under clause (a)(II) or (III) if the employee designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan. If the spouse, or beneficiary dies before the employee's separation from service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity.

(d) Except as provided in subsection (C), such employee may not change the form and time of payment of such employee's Post-Section 409A Benefit under this Plan after December 31, 2006.

(iv) Notwithstanding the foregoing, in no event shall a distribution option be available or apply to an employee's Pre-Section 409A Benefit if such distribution option would result in a material modification of the employee's Pre-Section 409A Benefit, as determined under Section 409A of the Code.

(B) Distribution Options for other Employees

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

(i) The employee may elect, in writing, payment following the employee’s separation from service under any of the following annuity options: (a) a straight life annuity, (b) a joint and 50% survivor annuity, and (c) a joint and 100% survivor annuity. The amount of such optional annuity benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The election will be subject to approval of the Company's Senior Human Resources Officer, in his or her discretion, and, if approved, will be irrevocable (except as provided in subsection (C)).

(ii) An employee’s election under paragraph (i) may be made with respect to an employee’s benefit under this Plan on or before December 31, 2006 in accordance with the transitional relief under Section 409A of the Internal Revenue Code; provided, however, that an employee’s election may not be made in 2006 with respect to payments the employee would otherwise receive in 2006, or to cause payments to be made in 2006.

(iii) The joint and survivor annuity is only available under paragraph (i)(b) or (c) if the employee designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan. If the spouse, or beneficiary dies before the employee's separation from service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity.

(iv) Except as provided in subsection (C), such employee may not change the form and time of payment of benefits under this Plan after December 31, 2006.

(C) **Changes in Distribution Option**

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

(i) The employee may elect, in writing, to change the form of payment of such employee’s Post-Section 409A Benefit to any of the following options: (a) a lump sum, (b) a straight life annuity, (c) a joint and 50% survivor annuity, and (d) a joint and 100% survivor annuity. The amount of such optional benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The employee’s election shall be subject to paragraphs (ii) and (iii). Except as provided in paragraph (iv), the employee’s election under this paragraph (i) shall be irrevocable. The joint and survivor annuity is only available under paragraph (c) or (d) if the employee designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the sa me manner as under the Basic Plan. If the spouse, or beneficiary dies before the employee’s separation from service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity.

(ii) The employee’s election under paragraph (i) shall not take effect until at least 12 months after his election is made.

(iii) In the event the employee's election under paragraph (i) becomes effective, the payment of such employee's Post-Section 409A Benefit under the option shall commence following the fifth anniversary of the employee's separation from service.

(iv) The employee may change the annuity option elected under paragraph (i) to another annuity option specified under paragraph (i), provided that such change is made prior to the commencement of the payment of benefits under this Plan.

(D) **Mandatory Distribution**

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

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

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

(ii) An employee's "Post-Section 409A Benefit" means an employee's benefit under this Plan, less such employee's Pre-Section 409A Benefit (if any).

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

(i) In the case of an employee who first becomes eligible for benefits under this Plan (as determined under Section 4) after December 31, 2005, the payment of benefits under this Plan shall be made in a lump sum in accordance with this subsection (F) following the employee's separation from service, except as provided in paragraph (ii).

(ii) The employee may elect to change the form of the payment of benefits under this Plan, as follows:

(a) The employee may elect, in writing, payment following the employee's separation from service under any of the following annuity options: (I) a straight life annuity, (II) a joint and 50% survivor annuity, and (III) a joint and 100% survivor annuity. The amount of such optional annuity benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The employee's election shall be subject to clauses (II) and (III). Except as provided in subparagraph (d), the employee's election under this subparagraph (a) shall be irrevocable. The joint and survivor annuity is only available under clause (II) or (III) if the employee designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan. If t he spouse, or beneficiary dies before the employee's separation from service, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity.

(b) The employee's election under subparagraph (a) shall not take effect until at least 12 months after his election is made.

(c) In the event the employee's election under subparagraph (a) becomes effective, the payment of benefits under the annuity option shall commence following the fifth anniversary of the employee's separation from service.

(d) The employee may change the annuity option elected under subparagraph (a) to another annuity option specified under subparagraph (a), provided that such change is made prior to the commencement of the payment of benefits under this Plan.

(G) **Separation from Service**

"Separation from service" shall mean, with respect to an employee, such employee's "separation from service," within the meaning of Section 409A(a)(2)(A)(i) of the Code, as determined by the Secretary of the Treasury.

(H) **Distributions to Specified Employees**

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

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

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

7. **EMPLOYEE'S RIGHTS**

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

8. **AMENDMENT AND DISCONTINUANCE**

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

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

(A) Some of the Participants under this Plan own life insurance policies (the "Policies") purchased on their behalf to fund their retirement benefits. The ownership of these Policies by each Participant is, however, subject to certain conditions (set forth in a "Split-Dollar Life Insurance Agreement" or comparable agreements between the Participant and the Company) and, if the Participant fails to meet the conditions set forth in the Split-Dollar Life Insurance Agreement, the Participant may lose certain rights under the Policy. In the event that a Participant satisfies the conditions specified in Section 5 or 6 of the Split-Dollar Life Insurance Agreement, so that the Participant or his beneficiary becomes entitled to benefits under one of those sections, the value of those benefits shall constitute an offset to any benefits otherwise payable under this Plan. As th e case may be, this offset (the "Offset Value") shall be calculated by determining the value of benefits payable under the Split-Dollar Life Insurance Agreement, that is, the cash surrender value of the Policy, or in the case of the Participant's death, the death benefits payable to the beneficiary under the Policy. The Offset Value shall then be compared to the Actuarial Equivalent (as defined in Section 9(D) of the benefits payable under this Plan (the "Plan Value"), and the Plan Value shall be reduced by the Offset Value.

(B) At the time when the Participant terminates employment for any reason, if the Plan Value exceeds the present value (determined using the interest rate specified in Section 9(D) of the Offset Value, the excess of the Value over the present value of the Offset Value shall be paid to the Participant or beneficiary at that time in a lump sum if the value does exceed $25,000 otherwise it shall be paid in accordance with the terms of this Plan. Such payment shall completely discharge all obligations owed under this Plan on account of Participant's participation in this Plan.

(C) If the Policy described in Section 9(A) is not on the life of the Participant, the insured dies prior to the Participant becoming eligible for benefits under the Plan, and the Participant or the Participant's beneficiary subsequently becomes eligible for benefits hereunder, the Actuarial Equivalent (as defined in Section 9(D) below) of the benefits payable hereunder shall be offset by the Actuarial Equivalent of the payments previously paid to the Participant in the Split-Dollar Life Insurance Agreement. Any remaining amount due the Participant or the Participant's beneficiary shall thereupon be paid in a cash lump sum.

(D) For purposes of this Section, the Actuarial Equivalent shall mean a benefit in the form of a lump sum payment which has the equivalent value computed using the actuarial factors specified in the Basic Plan.

Executed at San Diego, California this 5th day of December, 2005

By: ______________________________
G. Joyce Rowland

Title: Sr. Vice President, Human Resources

Date: December 5, 2005

EXHIBIT 10.09

SEMPRA ENERGY
1998 NON-EMPLOYEE DIRECTORS' STOCK PLAN

NONQUALIFIED STOCK OPTION AGREEMENT

Sempra Energy, a California corporation, hereby grants an option to purchase shares of its common stock to the optionee named below. The terms and conditions of the option are set forth in this cover sheet, in the attachment hereto, and in the Sempra Energy 1998 Non-Employee Directors' Stock Plan (the "Plan").

Date of Option Grant:	
Name of Optionee:	***Name***
Optionee's Social Security Number:	***SSN***
Number of Shares of Sempra Energy Common Stock Covered by Option:	
Exercise Price per Share:	
Normal Vesting Date:	
Expiration Date:	***Tenth anniversary of Date of Option Grant or if earlier five years after termination of service***

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

Optionee: **X** ______________________________
(Signature)

Sempra Energy: ______________________________
(Signature)

Title: Chairman & Chief Executive Officer

Attachment

NONQUALIFIED STOCK OPTION AGREEMENT

Vesting	Your right to exercise this option fully vests and becomes exercisable on the date of the Sempra Energy (year) Annual Meeting of Shareholders. In the event that you cease to be a member of the Board of Directors of Sempra Energy (the "Board") as a result of death, disability, Retirement (as defined in the Plan) or your involuntary termination of service on the Board other than for cause, your option shall thereupon become fully vested and exercisable.
Term	Your option will expire at the close of business at Sempra Energy headquarters on the day before the 10th anniversary of the Date of Option Grant shown on the cover sheet, and is subject to earlier expiration (as described below) if your service on the Board terminates.
Exercise of Option Following Termination of Service	If you cease to be a member of the Board for any reason, then (A) you shall have the right, subject to the terms and conditions of this Agreement and the Plan, to exercise your option, to the extent that it has vested as of the date of such termination of service, at any time within five years after the date of such termination or the earlier expiration of the ten-year term of the option, and (B) the unvested portion of your option shall be forfeited as of the date of such termination.
Restrictions on Exercise	Sempra Energy will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.
Notice of Exercise	When you wish to exercise this option, you must notify Sempra Energy by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship). The notice will be effective when it is received.

If someone else wants to exercise this option after your death, that person must establish that he or she is entitled to do so.

Form of Payment

When you submit your notice of exercise, you must include payment of the option price for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms:

? Your personal check, a cashier's check or a money order.

? Certificates for shares of Sempra Energy common stock that you have owned for at least six months, along with any forms needed to effect a transfer of the shares to Sempra Energy. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option price.

? To the extent permitted by law, arrangements can be made to permit a "cashless exercise" whereby you direct a securities broker approved by Sempra Energy to sell your option shares and to deliver sufficient sale proceeds to Sempra Energy in payment of the option price and any required withholding. The directions must be given by signing a special "Notice of Exercise" form provided by Sempra Energy.

Withholding Taxes

You will not be permitted to exercise this option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the option exercise. Payment of withholding taxes may be made by any combination of the methods described under "Form of Payment."

Restrictions on Resale

By signing this Agreement, you agree not to sell any option shares at a time when applicable laws or Sempra Energy policies prohibit a sale.

Transfer of Option

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

Retention Rights	Neither your option nor this Agreement creates any obligation on the part of the Board to nominate you for reelection to the Board, or confers upon you the right to remain a member of the Board for any period of time, or at any particular rate of compensation.
Shareholder Rights	You, or your estate or heirs, have no rights as a shareholder of Sempra Energy until a certificate for your option shares has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as described in the Plan.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Sempra Energy common stock, the number of shares covered by this option and the exercise price per share may be adjusted pursuant to the Plan.
Change in Control	Subject to certain limitations set forth in the Plan, in the event of a Change in Control (as defined in the Plan), your option will automatically become fully vested and exercisable as of the date of the Change in Control, and may, in the discretion of Sempra Energy's compensation committee, be cashed-out.
No Dividend Equivalents	No dividend equivalents will be paid by Sempra Energy with respect to your option or the shares covered by your option.
Nonqualified Stock Option	This option is not intended to be an incentive stock option under section 422 of the Internal Revenue Code.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of California.
The Plan and Other Agreements	The text of the Plan is incorporated in this Agreement by reference. This Agreement and the Plan constitute the entire understanding between you and Sempra Energy regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded.

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

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

	2002	2003	2004	2005	2006
Fixed charges and preferred stock dividends:					
Interest	$ 350	$ 345	$ 332	$ 342	$ 413
Interest portion of annual rentals	4	4	4	5	6
Preferred dividends of subsidiaries (1)	14	11	12	10	15
Total fixed charges	368	360	348	357	434
Preferred dividends for purpose of ratio	-	-	-	-	-
Total fixed charges and preferred dividends for purpose of ratio	$ 368	$ 360	$ 348	$ 357	$ 434
Earnings:					
Pretax income from continuing operations	$ 736	$ 814	$ 1,105	$ 947	$ 1,732
Add:					
Total fixed charges (from above)	368	360	348	357	434
Distributed income of equity investees	11	72	59	73	431
Less:					
Interest capitalized	29	26	8	28	58
Equity in income (loss) of unconsolidated subsidiaries and joint ventures	(55)	5	36	66	156
Minority interest in income of consolidated subsidiaries	-	-	-	-	7
Total earnings for purpose of ratio	$ 1,141	$ 1,215	$ 1,468	$ 1,283	$ 2,376
Ratio of earnings to combined fixed charges and preferred stock dividends	3.10	3.38	4.22	3.59	5.47
Ratio of earnings to fixed charges	3.10	3.38	4.22	3.59	5.47

(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.

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

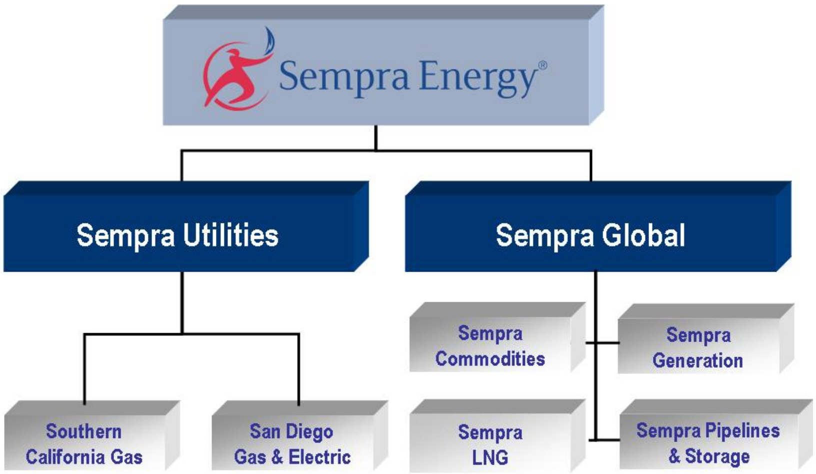
INTRODUCTION

This section of the 2006 Annual Report includes management's discussion and analysis of operating results from 2004 through 2006, and provides information about the capital resources, liquidity and financial performance of Sempra Energy and its subsidiaries (collectively referred to as "the company"). This section also focuses on the major factors expected to influence future operating results and discusses investment and financing activities and plans. It should be read in conjunction with the Consolidated Financial Statements included in this Annual Report.

OVERVIEW

Sempra Energy

Sempra Energy is a Fortune 500 energy services holding company. Its business units provide electric, natural gas and other energy products and services to its customers. Operations are divided into the Sempra Utilities and Sempra Global, as described below.



Summary descriptions of the operating business units are provided below and further detail is provided throughout this section of the Annual Report.

Major 2006 events, some of which may also affect future years, (and the page number where each is discussed) include the following:

- The 2006 sales of Sempra Generation's Twin Oaks Power plant (Twin Oaks); its Energy Services and Facilities Management businesses; and Sempra Energy Production Company (SEPCO), its exploration and production subsidiary (70);

- Sale of the Topaz Power Partners (Topaz) power plants in July 2006 (68);

- The 2006 decisions to sell Sempra Pipelines & Storage's investments in its two Argentine natural gas companies (67), and its domestic natural gas distribution companies, Bangor Gas and Frontier Energy (70);

- Continued development of the liquefied natural gas (LNG) business (64);

- Sempra Generation's transfer of the Palomar power plant to San Diego Gas & Electric Company (SDG&E) (102); and

- Settlements of certain litigation, subject to court approvals (107).

The Sempra Utilities

Southern California Gas Company (SoCalGas) and SDG&E (collectively, the Sempra Utilities) serve 23 million consumers from California's Central Valley to the Mexican border. Natural gas service is provided throughout Southern California and portions of central California through 6.4 million meters. Electric service is provided throughout San Diego County and portions of Orange County, both in Southern California, through 1.4 million meters.

Sempra Global

Sempra Global is a holding company for most of the subsidiaries of Sempra Energy other than the Sempra Utilities. Sempra Global's principal subsidiaries provide the following energy-related products and services:

- Sempra Commodities is primarily a wholesale and retail trader of physical and financial products, including natural gas, power, petroleum and petroleum products, and other commodities; and also is a trader and wholesaler of base metals;

- Sempra Generation owns and operates power plants;

- Sempra LNG is developing receipt terminals for the importation of LNG and has an agreement to supply natural gas to Mexico's government-owned electric utility; and

- Sempra Pipelines & Storage develops and owns natural gas pipelines and storage facilities in the United States and Mexico, and holds interests in companies that provide natural gas or electricity services in Argentina, Chile, Mexico and Peru. In 2006, the company decided to sell its interests in the Argentine utilities, as discussed in Note 3 of the notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

Overall Operations

Net income was $1.4 billion in 2006, a 53% increase over 2005, and diluted earnings per share was $5.38, an increase of 47%, as described below. The increase in net income and diluted earnings per share was primarily due to Sempra Generation's asset sales and lower litigation expense, offset by the impairment of Sempra Pipelines & Storage's Argentine investments. The smaller percentage increase in diluted earnings per share was due primarily to the higher weighted-average number of shares outstanding primarily resulting from the additional shares of common stock issued in mid-2005 in settlement of the equity unit contracts discussed in Note 12 of the notes to Consolidated Financial Statements.

The following table shows net income and diluted earnings per share for each of the last five years.

(Dollars in millions, except per share amounts)	Net Income	Diluted Earnings Per Share
2006	$ 1,406	$ 5.38
2005	$ 920	$ 3.65
2004	$ 895	$ 3.83
2003	$ 649	$ 3.03
2002	$ 591	$ 2.87

Comparison of Earnings

To assist the reader in understanding the trend of earnings, the following table summarizes the major unusual factors affecting net income and operating income in 2006, 2005 and 2004. The numbers in parentheses are the page numbers where each 2006 item is discussed.

	Net Income			Operating Income		
(Dollars in millions)	2006	2005	2004	2006	2005	2004
Reported amounts	$ 1,406	$ 920	$ 895	$ 1,785	$ 1,089	$ 1,272
Unusual items:						
Discontinued operations (70):						
Loss (income) from operations	27	(16)	18	--	--	--
Loss (gain) on disposal	(342)	9	2	--	--	--
Gain on sale of Topaz power plants (68)	(204)	--	--	--	--	--
Impairment of investments at Sempra Pipelines & Storage (67)	221	--	--	--	--	--
California energy crisis litigation (108)	18	311	84	24	508	140
Resolution of prior years' income tax issues (11)	(45)	(156)	(56)	--	--	--
Other regulatory matters (12)	(25)	(24)	(55)	(39)	(33)	(51)
Tax on repatriation (15)	24	--	--	--	--	--
Turbine impairments	--	38	--	--	63	--
DSM[1] awards settlement	--	(31)	--	--	(49)	--
Sempra Commodities' gain on sale of natural gas storage facilities	--	(41)	--	--	(67)	--
South Bay charitable contribution deduction	--	(23)	--	--	(23)	--
Gains on sale of SoCalGas' partnership property and on partial sale of Luz del Sur	--	--	(14)	--	--	(15)
Resolution of vendor disputes in Argentina	--	--	(12)	--	--	--
Gain on settlement of Cameron liability	--	--	(8)	--	--	--
	$ 1,080	$ 987	$ 854	$ 1,770	$ 1,488	$ 1,346

[1]Demand side management (DSM)

Net Income (Loss) by Business Unit

(Dollars in millions)	Years ended December 31, 2006		2005		2004	
Sempra Utilities						
Southern California Gas Company *	$ 223	16 %	$ 211	23 %	$ 232	26 %
San Diego Gas & Electric Company *	237	17	262	28	208	23
Total Sempra Utilities	460	33	473	51	440	49
Sempra Global						
Sempra Commodities	504	36	460	50	320	36
Sempra Generation **	375	27	149	16	132	15
Sempra Pipelines & Storage **	(165)	(12)	64	7	64	7
Sempra LNG	(42)	(3)	(25)	(3)	(8)	(1)
Total Sempra Global	672	48	648	70	508	57
Parent and other ***	(41)	(3)	(208)	(22)	(33)	(4)
Income from continuing operations	1,091	78	913	99	915	102
Discontinued operations, net of income tax	315	22	7	1	(20)	(2)
Consolidated net income	$ 1,406	100 %	$ 920	100 %	$ 895	100 %

* After preferred dividends

** Excludes amounts now classified as discontinued operations.

*** Includes after-tax interest expense ($101 million, $104 million and $116 million in 2006, 2005 and 2004, respectively), after-tax litigation expense ($1 million, $193 million and $27 million in 2006, 2005 and 2004, respectively), intercompany eliminations recorded in consolidation and certain corporate costs incurred at Sempra Global.

As a result of the 2006 sale of the majority of its investments in tax-advantaged limited partnerships, as discussed in Note 3 of the notes to Consolidated Financial Statements, the company's Sempra Financial business unit, previously shown separately, is now included in Parent and Other in all periods presented.

Sempra Utility Operations

The Sempra Utilities are subject to regulation by federal, state and local governmental agencies. The primary regulatory agency is the California Public Utilities Commission (CPUC), which regulates utility rates and operations. The Federal Energy Regulatory Commission (FERC) regulates interstate transportation of natural gas and electricity and various related matters. The Nuclear Regulatory Commission regulates nuclear generating plants. Municipalities and other local authorities regulate the location of utility assets, including natural gas pipelines and electric lines. Other business units are also subject to regulation by the FERC, various state commissions, local governmental entities, and various similar authorities in countries other than the United States.

Natural Gas Revenue and Cost of Natural Gas. Natural gas revenues decreased by $490 million (9%) to $4.8 billion in 2006, and the cost of natural gas decreased by $476 million (15%) to $2.8 billion in 2006. The decreases in 2006 were due to lower average costs of natural gas, which are passed on to customers, offset by higher volumes. In addition, natural gas revenues decreased at SoCalGas due to the CPUC's 2005 Cost of Service decision eliminating 2004 revenue sharing (for which $18 million was included in revenue in 2005), $14 million in DSM awards in 2005 and $50 million of lower revenues for recoverable expenses, which are fully offset in other operating expenses. The decreases at SoCalGas were offset by a $52 million increase in authorized base margin indexing and $10 million from the positive resolution in 2006 of a natural gas royalty matter. The company's weighted average cost (including transportation charges) per million British thermal units (mmbtu) of natural gas was $6.54 in 2006, $7.83 in 2005 and $5.94 in 2004.

Natural gas revenues increased by $716 million (16%) to $5.3 billion in 2005, and the cost of natural gas increased by $639 million (25%) to $3.2 billion in 2005 compared to 2004. The increases in 2005 were due to higher natural gas prices, which are passed on to customers, offset by a decrease in volume. In addition, natural gas revenues increased at SoCalGas due to higher authorized base margin of $28 million, the CPUC's decision in 2005 eliminating 2004 revenue sharing, DSM awards and higher revenues for recoverable expenses, as discussed above. SDG&E's natural gas revenues further increased due to $7 million in DSM awards in 2005. Performance awards are discussed in Note 14 of the notes to Consolidated Financial Statements.

Although the current regulatory framework provides that the cost of natural gas purchased for customers and the variations in that cost are passed through to the customers on a substantially concurrent basis, SoCalGas' Gas Cost Incentive Mechanism (GCIM) allows SoCalGas to share in the savings or costs from buying natural gas for customers below or above market-based monthly benchmarks. The mechanism permits full recovery of all costs within a tolerance band around the benchmark price. The costs or savings outside the tolerance band are shared between customers and shareholders. In addition, SDG&E's natural gas procurement Performance-Based Regulation (PBR) mechanism provides an incentive mechanism by measuring SDG&E's procurement of natural gas against a benchmark price comprised of monthly natural gas indices, resulting in shareholder rewards for costs achieved below the benchmark and shareholder penalties when co sts exceed the benchmark. Further discussion is provided in Notes 1 and 14 of the notes to Consolidated Financial Statements.

Electric Revenue and Cost of Electric Fuel and Purchased Power. Electric revenues increased by $347 million (19%) to $2.1 billion in 2006, and the cost of electric fuel and purchased power increased by $97 million (16%) to $721 million in 2006. The increase in revenue was due to $206 million of increased authorized distribution, generation and transmission base margins, $60 million higher revenues for recoverable expenses, which are fully offset in other operating expenses, and the $20 million favorable resolution of a prior year cost recovery issue. The increases were offset by a $28 million DSM awards settlement in 2005 and $23 million from the 2005 Internal Revenue Service (IRS) decision relating to the sale of SDG&E's former South Bay power plant. In addition, electric revenues and costs increased due to the commencement of commercial operations of the Palomar generating plant in 2006, which contribute d $112 million to both 2006 revenues and costs, offset by lower purchased power costs.

Electric revenues increased by $131 million (8%) to $1.8 billion in 2005 compared to 2004, and the cost of electric fuel and purchased power increased by $48 million (8%) to $624 million in 2005 compared to 2004. The increase in revenue was due to $41 million of higher revenues for recoverable expenses, the DSM awards settlement in 2005 and the 2005 IRS decision, as discussed above. In addition, revenues and costs increased $48 million due to higher purchased power costs.

The tables below summarize the Sempra Utilities' natural gas and electric volumes and revenues by customer class for the years ended December 31, 2006, 2005 and 2004.

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

	Natural Gas Sales		Transportation and Exchange		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
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
Balancing accounts and other						126
Total						$ 4,763
2005:						
Residential	271	$ 3,193	1	$ 6	272	$ 3,199
Commercial and industrial	123	1,257	273	190	396	1,447
Electric generation plants	1	3	201	88	202	91
Wholesale	--	--	19	6	19	6
	395	$ 4,453	494	$ 290	889	4,743
Balancing accounts and other						510
Total						$ 5,253
2004:						
Residential	287	$ 2,904	2	$ 7	289	$ 2,911
Commercial and industrial	126	1,013	276	198	402	1,211
Electric generation plants	--	2	252	90	252	92
Wholesale	--	--	20	6	20	6
	413	$ 3,919	550	$ 301	963	4,220
Balancing accounts and other						317
Total						$ 4,537

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

	2006		2005		2004	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Residential	7,501	$ 910	7,075	$ 738	7,038	$ 692
Commercial	6,983	723	6,674	654	6,592	644
Industrial	2,250	180	2,148	141	2,072	133
Direct access	3,390	133	3,213	114	3,441	105
Street and highway lighting	102	10	93	11	97	11
	20,226	1,956	19,203	1,658	19,240	1,585
Balancing accounts and other		180		131		73
Total		$ 2,136		$ 1,789		$ 1,658

Although commodity costs associated with long-term contracts allocated to SDG&E from the Department of Water Resources (DWR) (and the revenues to recover those costs) are not included in the Statements of Consolidated Income, as discussed in Note 1 of the notes to Consolidated Financial Statements, the associated volumes and distribution revenues are included in the above table.

Sempra Global and Parent Operating Revenues and Cost of Sales. These tables provide a breakdown of operating revenues and cost of sales at Sempra Global and the parent companies by business unit.

	Years ended December 31,								
(Dollars in millions)	2006			2005			2004		
OPERATING REVENUES									
Sempra Commodities *	$	3,256	67 %	$	2,724	61 %	$	1,689	56 %
Sempra Generation *		1,454	30		1,708	38		1,472	48
Sempra Pipelines & Storage *		295	6		317	7		260	9
Sempra LNG		(21)	(1)		--	--		--	--
Total Sempra Global		4,984	102		4,749	106		3,421	113
Parent and other **		(122)	(2)		(279)	(6)		(382)	(13)
Total	$	4,862	100 %	$	4,470	100 %	$	3,039	100 %
COST OF SALES									
Sempra Commodities *	$	1,468	55 %	$	1,267	49 %	$	597	37 %
Sempra Generation *		1,019	38		1,209	47		1,088	67
Sempra Pipelines & Storage *		233	8		261	10		205	12
Total Sempra Global		2,720	101		2,737	106		1,890	116
Parent and other **		(31)	(1)		(149)	(6)		(261)	(16)
Total	$	2,689	100 %	$	2,588	100 %	$	1,629	100 %

* Does not include unconsolidated affiliates that are part of this business unit.

** Includes intercompany eliminations recorded in consolidation, including the Palomar plant as discussed in Note 13 of the notes to Consolidated Financial Statements.

Increases in 2006 revenues and cost of sales reflect increased trading activity and higher commodity prices at Sempra Commodities, primarily as a result of increased volatility in the natural gas and metals markets, and higher sales to Sempra Generation's merchant customers. The increases were offset by the decreased value of Sempra Generation's sales to the DWR, primarily due to lower natural gas prices.

Increases in 2005 revenues and cost of sales compared to 2004 reflect increased trading activity and higher commodity prices at Sempra Commodities, primarily as a result of increased volatility in the power and natural gas markets, and the increased value of Sempra Generation power sales to the DWR as a result of higher natural gas prices.

Litigation Expenses. Litigation expenses were $56 million, $551 million and $150 million for 2006, 2005 and 2004, respectively. The higher amount in 2005 was primarily due to increases in litigation reserves related to matters arising from the 2000 - 2001 California energy crisis. Note 15 of the notes to Consolidated Financial Statements provides additional information concerning this matter.

Other Operating Expenses. This table provides a breakdown of other operating expenses by business unit.

	Years ended December 31,					
(Dollars in millions)	2006		2005		2004	
OTHER OPERATING EXPENSES						
Sempra Utilities						
Southern California Gas Company	$ 951	34 %	$ 954	37 %	$ 908	42 %
San Diego Gas & Electric Company	774	28	603	23	574	26
Total Sempra Utilities	1,725	62	1,557	60	1,482	68
Sempra Global						
Sempra Commodities	869	31	811	32	556	25
Sempra Generation	96	3	99	4	85	4
Sempra Pipelines & Storage	36	1	37	1	38	2
Sempra LNG	38	1	34	1	26	1
Total Sempra Global	1,039	36	981	38	705	32
Parent and other *	50	2	45	2	--	--
Total	$ 2,814	100 %	$ 2,583	100 %	$ 2,187	100 %

* Includes intercompany eliminations recorded in consolidation.

Other operating expenses for 2006 increased primarily due to the growth in Sempra Commodities' revenues noted previously. SDG&E's other operating expenses increased due to $72 million higher recoverable expenses, $33 million related to the 2005 recovery of line losses and grid management charges arising from the favorable settlement with the Independent System Operator (ISO), an independent operator of California's wholesale transmission grid, and increases in other operational costs.

Other operating expenses for 2005 increased compared to 2004 primarily due to an increase in expenses at Sempra Commodities attributable to the growth in revenues noted previously. Other operating expenses at the Sempra Utilities increased due to $59 million of favorable resolutions of regulatory matters in 2004 and $51 million of higher recoverable expenses in 2005, offset by the $42 million net effect related to the 2005 recovery of line losses and grid management charges arising from the favorable settlement with the ISO.

***Gains on Sale of Assets, Net**.* Net pretax gains on the sale of assets were $1 million, $112 million and $15 million in 2006, 2005 and 2004, respectively. The 2005 gain included $106 million ($67 million after related costs) associated with Sempra Commodities' sale of its two natural gas storage facilities, Bluewater Gas Storage and Pine Prairie Energy Center. 2004 included SoCalGas' $15 million gain on the sale of partnership properties.

Impairment Losses. Impairments included a $63 million pretax write-down in 2005 of unused gas and steam turbines at Sempra Generation.

Other Income, Net. Other income, net, as discussed further in Note 1 of the notes to Consolidated Financial Statements and which consists primarily of equity earnings from unconsolidated subsidiaries, allowance for equity funds used during construction and regulatory interest, was $381 million, $51 million and $32 million in 2006, 2005 and 2004, respectively. The increase in 2006 was primarily due to the $344 million pretax gain on the sale of the Topaz power plants (by a joint venture 50-percent owned by Sempra Generation). The gain was included in equity earnings from unconsolidated subsidiaries, as discussed in Note 3 of the notes to Consolidated

Financial Statements. The increase in 2005 compared to 2004 was due to higher equity earnings of $14 million at Sempra Generation from the Topaz power plants (resulting from entering into the joint venture in July 2004) and $16 million lower equity losses at Sempra Financial (primarily due to the 2004 sale of an alternative-fuel investment). The increases were offset by a $12 million decrease in regulatory interest at SoCalGas primarily due to a Cost of Service decision in 2004, and the $13 million pretax gain in 2004 on the settlement of an unpaid portion of the purchase price of the Cameron LNG project for an amount less than the liability (which had been recorded as a derivative).

Interest Income. Interest income was $109 million, $72 million and $69 million in 2006, 2005 and 2004, respectively. The increase in 2006 was primarily due to $12 million from a favorable resolution of a state income tax matter, $13 million from the resolution of an insurance claim at Pacific Enterprises (PE) (the parent company of SoCalGas) related to a quasi-reorganization issue in 2006 as discussed in Note 1 of the notes to Consolidated Financial Statements, higher interest resulting from increases in short-term investments and $6 million from a 2006 income tax audit settlement at SoCalGas. The increases were offset by a decrease at SDG&E due to $12 million lower interest as a result of income tax audit settlements in 2005.

Interest Expense. Interest expense was $351 million, $310 million and $320 million in 2006, 2005 and 2004, respectively. The increase in 2006 was primarily due to increased borrowings at SDG&E to finance the purchase of the Palomar generating plant, increased short-term borrowings at Sempra Commodities, lower capitalized interest at Sempra Generation due to completion of the Palomar generating plant, higher interest expense at SoCalGas associated with the $250 million first mortgage bonds issued in November 2005 and higher variable rates, and interest expense related to the accretion of the California energy crisis litigation settlement liability. The increases were offset by higher capitalized interest at Sempra LNG.

Income Taxes. For the years ended 2006, 2005 and 2004, the company had income tax expense of $641 million, $34 million and $190 million. The effective income tax rates were 33 percent, 4 percent and 18 percent, respectively. The increase in 2006 expense was due to higher pretax income and the higher effective tax rate. The increase in the effective rate was due primarily to $156 million of favorable resolutions of prior years' income tax issues in 2005 compared to $45 million in 2006 and $56 million in 2004, an increased portion of income earned in high tax rate jurisdictions, and lower synthetic fuels credits generated in 2006 compared to 2005 and 2004 as a percentage of income.

Equity in Earnings (Losses) of Certain Unconsolidated Subsidiaries. For the years ended 2006, 2005 and 2004, equity in earnings (losses) of certain unconsolidated subsidiaries, net of tax, as discussed further in Note 3 of the notes to Consolidated Financial Statements, was $(182) million, $55 million and $62 million, respectively. The 2006 amount included a $221 million impairment loss associated with Sempra Pipelines & Storage's Argentine investments.

Discontinued Operations. During 2006, Sempra Generation completed the sales of the Twin Oaks Power plant, its Energy Services and Facilities Management businesses, and SEPCO, its exploration and production subsidiary. In June 2006, Sempra Energy's management decided to sell Bangor Gas and Frontier Energy, Sempra Pipelines & Storage's domestic natural gas distribution companies. In January 2007, Sempra Pipelines & Storage entered into agreements to sell the companies, subject to regulatory approvals.

In 2004, Sempra Energy disposed of its interest in Atlantic Electric & Gas Limited (AEG), a marketer of power and natural gas commodities to commercial and residential customers in the United Kingdom.

Note 4 of the notes to Consolidated Financial Statements provides further details on these discontinued operations.

Net Income. Variations in net income are summarized in the table shown previously under "Comparison of Earnings."

Business Unit Results

Southern California Gas Company

SoCalGas recorded net income of $223 million, $211 million and $232 million in 2006, 2005 and 2004, respectively. The increase in 2006 was due primarily to the California energy crisis reserve of $57 million recorded in litigation expense in 2005 and $7 million from the positive resolution in 2006 of a natural gas royalty matter, offset by $24 million in 2005 from the favorable resolution of prior years' income tax issues, $11 million from the reversal in 2005 of the 2004 revenue sharing reserve resulting from the CPUC's 2004 Cost of Service decision, higher income tax expense in 2006 of $13 million due to a higher effective tax rate in 2006 (excluding the effect of the resolution of prior years' income tax issues in 2005) and a DSM awards settlement of $9 million in 2005.

The decrease in 2005 compared to 2004 was due primarily to the resolution of the 2004 Cost of Service proceedings (as discussed further in Note 14 of the notes to Consolidated Financial Statements) which favorably affected 2004 net income by $34 million, an increase of $33 million after-tax in California energy crisis litigation expenses and the $9 million after-tax gain from the sale of the Hawaiian Gardens property in 2004, offset by favorable resolution of income tax issues in 2005 of $24 million, higher authorized base margins in 2005 of $17 million after-tax and the DSM awards settlement of $9 million in 2005.

San Diego Gas & Electric Company

SDG&E recorded net income of $237 million, $262 million and $208 million in 2006, 2005 and 2004, respectively. The decrease in 2006 was primarily due to $60 million associated with the favorable resolution of prior years' income tax issues in 2005, the $23 million recovery of costs in 2005 associated with an IRS decision relating to the sale of the South Bay power plant and $22 million related to a DSM awards settlement in 2005. These items were offset by a $42 million increase in earnings from electric generation activities including the commencement of commercial operation of the Palomar generating plant in 2006, $29 million due to the litigation expense in 2005 related to the California energy crisis matter and a $13 million increase in earnings due to lower income tax expense primarily resulting from a lower effective tax rate in 2006 (excluding the effect of the resolution of prior years' income tax issues in 2005) . Also, the resolution of regulatory items increased 2006 net income by $25 million as compared to $24 million in 2005. The 2006 regulatory items include a $13 million resolution of prior year cost recovery issue; $8 million due to the CPUC authorization for retroactive recovery on the San Onofre Nuclear Generating Station (SONGS) revenues related to a computational error in the 2004 Cost of Service; and $4 million due to FERC approval to recover prior year ISO charges in 2006. The 2005 regulatory item of $24 million resulted from FERC approval to recover prior year

ISO charges in 2005 (as discussed further in Note 14 of the notes to Consolidated Financial Statements).

The increase in 2005 compared to 2004 was due primarily to the favorable settlement with the ISO, the DSM awards settlement, favorable resolution of income tax issues, and the 2005 IRS decision discussed above, offset by a $17 million increase in after-tax California energy crisis litigation expense, the favorable impact of $21 million from the resolution of the 2004 Cost of Service proceeding and $19 million lower electric transmission and distribution authorized base margins and higher operational costs in 2005.

Sempra Commodities

Sempra Commodities recorded net income of $504 million, $460 million and $320 million in 2006, 2005 and 2004, respectively. The increase in 2006 was due to improved margins (as detailed below) in North America and in natural gas and metals, offset by decreased margins for petroleum and power, the $41 million after-tax gain on the sale of two natural gas storage facilities in 2005 and lower income from synthetic fuels tax-credit operations. The increase in 2005 compared to 2004 was due to improvements in its North American operations and most product line segments, the gain on the sale of natural gas storage facilities and a $26 million favorable resolution of prior years' income tax issues in 2005. In addition to the effect of changing prices and volumes, earnings variability will continue in future periods as a result of natural gas and oil inventories, and of storage and transportation capacity contracts' not being marked to market while the economically offsetting derivative instruments are marked to market. Margin, summarized below by geographical region and product line, consists of net revenues less related costs (primarily brokerage, transportation and storage) plus or minus net interest income/expense, and is used by management in evaluating geographical and product line performance. Margin for 2006 and 2005 includes $110 million and $108 million, respectively, of gains recorded at the time a structured derivative is originated, commonly referred to as "day-one" gains.

	Years ended December 31,					
Margin (Dollars in millions)	2006		2005		2004	
Geographical:						
North America	$ 1,313	80 %	$ 1,091	81 %	$ 689	67 %
Europe and Asia	325	20	255	19	338	33
	$ 1,638	100 %	$ 1,346	100 %	$ 1,027	100 %
Product Line:						
Gas	$ 792	49 %	$ 439	32 %	$ 318	31 %
Power	431	26	443	33	170	17
Oil – crude and products	198	12	292	22	268	26
Metals	138	8	54	4	180	17
Other	79	5	118	9	91	9
	$ 1,638	100 %	$ 1,346	100 %	$ 1,027	100 %

The amounts reported as "Other" include synthetic fuels tax-credit operations of $97 million, $110 million and $97 million in 2006, 2005 and 2004, respectively, which contributed $31 million, $36 million and $29 million to net income in 2006, 2005 and 2004, respectively.

A summary of Sempra Commodities' unrealized revenues for trading activities follows:

	Years ended December 31,		
(Dollars in millions)	2006	2005	2004
Balance at January 1	$ 1,488	$ 1,193	$ 347
Additions	3,069	1,241	1,606
Realized	(2,644)	(946)	(760)
Balance at December 31	$ 1,913	$ 1,488	$ 1,193

The estimated fair values as of December 31, 2006, and the scheduled maturities related to the unrealized revenues are (dollars in millions):

	Fair Market	Scheduled Maturity (in months)			
Source of fair value	Value	0-12	13-24	25-36	>36
Prices actively quoted	$ 1,746	$ 959	$ 575	$ 47	$ 165
Prices provided by other external sources	28	(6)	--	2	32
Prices based on models and other valuation methods	(16)	--	--	--	(16)
Over-the-counter (OTC) revenue	1,758 *	953	575	49	181
Exchange contracts **	155	412	(188)	55	(124)
Total	$ 1,913	$ 1,365	$ 387	$ 104	$ 57

* The present value of unrealized revenue to be received from outstanding OTC contracts.

** Cash received (paid) associated with open exchange contracts.

Sempra Generation

Sempra Generation recorded net income of $375 million, $149 million and $132 million in 2006, 2005 and 2004, respectively. The 2006 increase was primarily due to a $204 million gain from the sale of the Topaz power plants. The 2006 increase was also due to an impairment loss of $38 million in 2005 related to the write-down of unused gas and steam turbines, and in 2006, $10 million of higher earnings related to the construction of the Palomar generating plant for SDG&E, $23 million of higher interest income and $8 million of lower project development expenses, offset by a $35 million decrease in mark-to-market earnings on long-term forward contracts with Sempra Commodities for the sale of power during 2007 to 2012, litigation reserves of $18 million recorded primarily as a result of the April 2006 DWR arbitration decision, which is discussed in Note 15 of the notes to Consolidated Financial Statements, and $12 mill ion of lower earnings from the Topaz power plant operations as a result of their sale. The 2005 increase compared to 2004 was due to $30 million of higher mark-to-market gains on long-term forward contracts with Sempra Commodities, $10 million of higher equity earnings from the Topaz power plant operations (a full year of equity earnings in 2005 compared to six months in 2004), $6 million of higher interest income, and improved earnings attributable to increased sales at its other power plants, offset by the write-down of unused gas and steam turbines.

Sempra Pipelines & Storage

Net income (loss) for Sempra Pipelines & Storage was $(165) million, $64 million and $64 million in 2006, 2005 and 2004, respectively. The decrease in 2006 was primarily due to 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 $42 million, $25 million and $8 million in 2006, 2005 and 2004, respectively. The increased loss in 2006 was due to a $13 million mark-to-market loss related to a natural gas marketing agreement with Sempra Commodities and higher development and general and administrative expenses. The increased loss in 2005 compared to 2004 was primarily due to higher development and general and administrative expenses and an $8 million after-tax gain in 2004 from the settlement of an unpaid portion of the purchase price of the Cameron LNG project for an amount less than the liability (which had been recorded as a derivative).

Parent and Other

Net losses for Parent and Other were $41 million, $208 million and $33 million in 2006, 2005 and 2004, respectively. Net losses consist primarily of interest expense, litigation expense and tax-related adjustments. Interest expense was $101 million, $104 million and $116 million for 2006, 2005 and 2004, respectively. The decrease in net losses for 2006 was due to $193 million of California energy crisis litigation reserves recorded in 2005, $38 million favorable resolution of a state income tax matter in 2006 and $8 million in interest income related to an insurance claim in 2006, offset by the $42 million favorable resolution of prior years' income tax issues in 2005 and $24 million lower 2006 affordable-housing credits at Sempra Financial. For 2004, net losses included $27 million after-tax of litigation expenses, offset by a reduction in income tax accruals.

Book Value Per Share

Book value per share was $28.67, $23.95 and $20.77, at December 31, 2006, 2005 and 2004, respectively. The increases in 2006 and 2005 were primarily the result of comprehensive income exceeding dividends. In addition, in 2005, the increase was attributable to sales of additional shares of common stock for a per-share price in excess of its book value, primarily in connection with the equity units described in Note 12 of the notes to Consolidated Financial Statements.

CAPITAL RESOURCES AND LIQUIDITY

A substantial portion of the funding of the company's capital expenditures and its ability to pay dividends is dependent on the relatively stable pattern of earnings by the Sempra Utilities and Sempra Generation's long-term power sale contracts. However, SDG&E is not expected to provide cash over the next few years, as it is planning significant capital expenditures during that time. The availability of capital for other business operations is also greatly affected by Sempra Commodities' liquidity and margin requirements, which fluctuate substantially and, to a lesser extent, the margin requirements at Sempra Generation. The company's expansion also requires the issuances of securities from time to time.

At December 31, 2006, there was $920 million in unrestricted cash and cash equivalents and $6.2 billion in available unused, committed lines of credit to provide liquidity and support commercial paper. Of these lines, $10 million supported variable-rate debt. Management believes that these amounts and cash flows from operations, asset sales and security issuances will be adequate to finance capital expenditures and meet liquidity requirements and to fund shareholder dividends, any new business acquisitions or start-ups, and other commitments. Forecasted capital expenditures for the next five years are discussed in "Future Construction Expenditures and Investments." If cash flows from operations were to be significantly reduced or the company were to be unable to raise funds under acceptable terms, neither of which is considered likely, the company would be required to reduce non-utility capital expenditures, trading operations and/or investments in new businesses. Management continues to regularly monitor the company's ability to finance the needs of its operating, investing and financing activities in a manner consistent with its intention to maintain strong, investment-quality credit ratings.

At the Sempra Utilities, cash flows from operations, security issuances and/or capital contributions by Sempra Energy are expected to continue to be adequate to meet utility capital expenditure requirements. In connection with the purchase of the Palomar generating plant in the first quarter of 2006, SDG&E's dividends to Sempra Energy have been suspended to increase SDG&E's equity, and the level of future common dividends may be affected in order to maintain SDG&E's authorized capital structure during periods of increased capital expenditures. In 2006, the company made a capital contribution of $200 million to SDG&E.

Sempra Commodities provides or requires cash as the level of its net trading assets fluctuates with prices, volumes, margin requirements (which are substantially affected by commodity price fluctuations and are dependent on credit ratings) and the length of its various trading positions. Sempra Commodities' intercompany borrowings were $376 million and $638 million at December 31, 2006 and 2005, respectively, and as high as $1.2 billion and $1.3 billion in 2006 and 2005, respectively. Sempra Commodities’ external debt was $201 million and $103 million at December 31, 2006 and 2005, respectively. Company management continuously monitors the level of Sempra Commodities' cash requirements in light of the company's overall liquidity. Such monitoring includes the procedures discussed in "Market Risk."

Sempra Generation's projects have been financed through a combination of operating cash flow, project financing, funds from the company and external borrowings. Its 2006 asset sales, discussed in Notes 2, 3 and 4 of the notes to Consolidated Financial Statements, have provided funds to assist in financing company projects.

Sempra Generation's long-term power sale contracts typically contain collateral requirements. The collateral arrangements provide for Sempra Generation and/or the counterparty to post cash, guarantees or letters of credit to the other party for exposure in excess of established thresholds. Sempra Generation may be required to provide collateral when market price movements adversely affect the counterparty's cost of replacement energy supplies were Sempra Generation to fail to deliver the contracted amounts. Sempra Generation had $6 million and $267 million of outstanding collateral requirements under these contracts at December 31, 2006 and 2005, respectively. The significant reduction of the collateral requirements since December 31, 2005 was primarily due to the sale of Twin Oaks in 2006.

Sempra Pipelines & Storage is expected to require funding from the company or external sources, or both, to continue the expansion of its existing natural gas operations in Mexico, its Liberty Gas Storage (Liberty) facility and other natural gas storage projects, its participation in the development of Rockies Express Pipeline (REX), a natural gas pipeline, and its planned development of pipelines to serve Sempra LNG facilities being developed in Baja California, Mexico; Louisiana and Texas, as discussed in Note 2 of the notes to Consolidated Financial Statements. The planned sale of interests in Argentina, as discussed in Note 3 of the notes to Consolidated Financial Statements, is expected to provide cash for company projects.

Sempra LNG requires funding for its development of LNG receiving facilities. While Sempra LNG's $1.25 billion credit facility and other Sempra Energy sources are expected to be adequate for these requirements, the company may decide to use project financing if management determines its use to be advantageous. As the projects currently under construction are put in service, Sempra LNG is expected to provide operating cash flow for further development.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities totaled $1.6 billion, $524 million and $1.0 billion for 2006, 2005 and 2004, respectively.

Cash provided by operating activities in 2006 increased by $1.1 billion (211%) to $1.6 billion. The change was primarily due to a $562 million lower increase in net trading assets in 2006, a $170 million increase in overcollected regulatory balancing accounts in 2006 compared to a $321 million decrease in 2005, a $565 million increase in income from continuing operations (adjusted for non-cash items) and a $94 million reduction of accounts receivable in 2006 compared to a $79 million increase in 2005. The increases were offset by a $416 million higher increase in other liabilities in 2005, and a $79 million decrease in current liabilities in 2006 compared to a $189 million increase in 2005.

The 2005 decrease in net cash provided by operating activities compared to 2004 was primarily due to a $650 million higher increase in net trading assets and a $399 million decrease in overcollected regulatory balancing accounts in 2005, offset by a $480 million increase in other liabilities in 2005.

The company made pension plan and other postretirement benefit plan contributions of $35 million and $32 million, respectively, during 2006, $24 million and $45 million, respectively, during 2005 and $27 million and $50 million, respectively, during 2004.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used in investing activities totaled $866 million, $1.2 billion $610 million for 2006, 2005 and 2004, respectively.

Cash used in investing activities in 2006 decreased by $321 million (27%) to $866 million. The change was primarily attributable to $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 a $358 million increase in dividends received from unconsolidated affiliates mainly due to the sale of the Topaz Power plants, offset by a $530 million increase in capital expenditures and $247 million in proceeds from the sale in 2005 of the Bluewater Gas Storage and Pine Prairie Energy Center natural gas storage sites at Sempra Commodities.

Management does not expect that the sale of businesses and investments as discussed in Notes 2, 3 and 4 of the notes to Consolidated Financial Statements will have a material impact on the company's future operating cash flows.

The increase in cash used in investing activities in 2005 compared to 2004 was primarily attributable to a $312 million increase in capital expenditures in 2005, $363 million in proceeds from the sale of U.S. Treasury obligations that previously securitized the synthetic lease for one of Sempra Generation's power plants in 2004 and $157 million in proceeds from the disposal of

AEG's discontinued operations in 2004, offset by $247 million in proceeds from the sale of Sempra Commodities' natural gas storage sites in 2005.

Capital Expenditures and Investments

Expenditures for property, plant and equipment and for investments are presented in the following table.

(Dollars in millions)	Property, plant and equipment	Investments in and acquisitions of subsidiaries
2006	$ 1,907	$ 257
2005	$ 1,377	$ 86
2004	$ 1,065	$ 74
2003	$ 1,012	$ 192
2002	$ 1,195	$ 429

Capital expenditure information by segment is provided in Note 16 of the notes to Consolidated Financial Statements.

Investment and acquisition costs were $257 million, $86 million and $74 million for 2006, 2005 and 2004, respectively. The 2006 amount included a $128 million investment in industrial development bonds in connection with the Liberty project, discussed in Note 5 of the notes to Consolidated Financial Statements, and a $104 million initial capital contribution to Rockies Express Pipeline LLC (Rockies Express), discussed below, during the first half of 2006. The contribution was returned to Sempra Pipelines & Storage in connection with financing received by Rockies Express during the second quarter of 2006 and was reported in Distribution from Investment on the Statements of Consolidated Cash Flows. The 2005 amount included Sempra Generation's purchase of Reliant Energy's 50-percent interest in El Dorado, as discussed below. The 2004 amount primarily reflected Sempra Generation's investment in Topaz.

Sempra Utilities

Capital expenditures for property, plant and equipment by the Sempra Utilities were $1.5 billion in 2006 compared to $825 million in 2005 and $725 million in 2004. The increase in 2006 was primarily due to the purchase by SDG&E of the Palomar generating plant. This purchase is substantially eliminated in consolidation in 2006, as the capital expenditures were recorded by Sempra Energy over the construction period from 2004 through the first quarter of 2006.

Sempra Generation

Sempra Generation owns and operates power plants in the Pacific Southwest and Mexico, which sell electricity under long-term contracts and into spot market and 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. The following table lists the megawatt (MW) capacity of each operating power plant.

Power Plant	Maximum Generating Capacity (MW)	Location
Mesquite Power	1,250	Arlington, AZ
Termoeléctrica de Mexicali	625	Mexicali, Baja California, Mexico
El Dorado	480	Boulder City, NV
Elk Hills (50% owned)	275 *	Bakersfield, CA
Total MW in operation	2,630	

* Sempra Generation's share

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 the company's wholly owned Twin Oaks power plant and Coleto Creek, which the company 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 that it sold in 2006. Notes 3 and 4 of the notes to Consolidated Financial Statements provide detailed information of the sales.

In July 2005, Sempra Generation purchased Reliant Energy's 50-percent interest in El Dorado for $132 million (including assumed debt), resulting in its having full ownership of the plant.

Additional information concerning Sempra Generation's facilities is provided in Notes 2, 3, 4 and 15 of the notes to Consolidated Financial Statements.

Sempra LNG

Sempra LNG develops and builds, and will operate LNG receipt terminals and sell regasified LNG.

Energía Costa Azul LNG receipt terminal

In early 2005, Sempra LNG began construction of the Energía Costa Azul LNG receipt terminal in Baja California, Mexico, which is expected to begin operations in early 2008 and will be capable of processing 1 billion cubic feet (bcf) of natural gas per day. The terminal is expected to cost approximately $900 million, and expenditures are $600 million through December 31, 2006. Upon commencement of operations, the facility will generate revenue under a terminal services agreement with a customer, utilizing one-half of its capacity, and the company is negotiating for temporary supplies of LNG until LNG supplies begin arriving in 2009 under a 20-year purchase and sale agreement with British Petroleum (BP) (discussed in "Commitments" below) that will fully utilize the remaining capacity.

In January 2005, Sempra LNG was awarded a 15-year natural gas supply contract by Mexico's government-owned electric utility, the Comisión Federal de Electricidad (CFE). The contract is estimated at $1.4 billion over its life and supports the CFE's future energy needs in northern Baja California, including the Presidente Juarez power plant in Rosarito. The supply is expected to come from natural gas processed at the Energía Costa Azul terminal. Starting in 2008 and running through 2022, the agreement provides the CFE with an average of about 130 million cubic feet per day of natural gas.

In May 2006, Sempra LNG received non-binding expressions of interest in the potential expansion of its Energía Costa Azul terminal. In 2006, expenditures were $36 million related to the expansion project. The ultimate scope and timing of the expansion project will depend on the outcome of negotiations for binding supply and/or terminal service agreements.

Cameron LNG receipt terminal

In August 2005, Sempra LNG announced an agreement with Eni S.p.A. for 40 percent of the send-out capacity of the Cameron LNG receipt terminal under construction near Hackberry, Louisiana. Combined with other, preliminary non-binding agreements with multiple parties, this allowed the company to begin construction. Construction is expected to be completed in late 2008, with regular capacity revenues starting in early 2009. The terminal is expected to cost approximately $750 million, of which $411 million has been expended through December 31, 2006. In January 2007, Sempra LNG received approval from the FERC for the proposed expansion of the terminal's production capacity to 2.65 bcf of natural gas per day from 1.5 bcf per day. Expenditures related to the proposed expansion were $6 million in 2006. The ultimate scope and timing of the expansion project will depend on the outcome of negotiations for binding supply and/or termin al service agreements.

In March 2006, Sempra LNG executed a terminal services agreement with Merrill Lynch Commodities Inc. (MLC) to bring natural gas to the U.S. Gulf Coast, conditioned on MLC’s obtaining a contract for the supply of LNG. The 15-year, full-service capacity agreement provides MLC the capability to process 500 million cubic feet per day through Sempra LNG’s Cameron LNG receipt terminal. It had been anticipated that MLC would have a supply of LNG by June 30, 2006, and Sempra LNG and MLC are in the process of negotiating an extension of time for MLC to obtain that supply. Depending on the timing of MLC's finalizing its LNG supply arrangements, Sempra LNG would have the flexibility to fulfill its capacity commitment from either the first phase of Cameron LNG’s development or its expansion.

Port Arthur LNG receipt terminal

In June 2006, Sempra LNG received approval from the FERC to construct the Port Arthur LNG receipt terminal in Texas, which will be capable of processing up to 3 bcf per day of natural gas. The commencement of construction of this facility will depend on the negotiation of sufficient binding supply and/or terminal service agreements to justify its construction.

Additional information concerning Sempra LNG's projects is provided in Note 2 of the notes to Consolidated Financial Statements.

Sempra Pipelines & Storage

In December 2005, Sempra Pipelines & Storage entered into definitive agreements with Kinder Morgan Energy Partners, L.P. (KMP) to jointly pursue through Rockies Express the development of a natural gas pipeline, the REX, that would link producing areas in the Rocky Mountain region to the upper Midwest and the Eastern United States. Also in December 2005, a subsidiary of Sempra Global entered into an agreement with Rockies Express for 200 million cubic feet per day of capacity on the REX, which will have capacity of 1.8 bcf per day. In February 2006, Sempra Pipelines & Storage and KMP announced that they had secured shipper commitments for more than the capacity of the estimated $4.4 billion REX project. In September 2006, the FERC approved proposed rates for the 713-mile western portion of the REX.

In June 2006, Sempra Pipelines & Storage and KMP announced that ConocoPhillips, an integrated petroleum company based in Houston, Texas, had exercised its option to acquire a 25-percent interest in Rockies Express, 24 percent currently and an additional 1-percent interest to be acquired after pipeline construction is completed. This reduced Sempra Pipelines & Storage's ownership interest in the project to 25 percent from its previous one-third ownership interest. KMP currently owns 51 percent of the equity in the project and will own 50 percent when construction, which has begun, is completed. In connection with financing received by Rockies Express in 2006, Sempra Pipelines & Storage and KMP were repaid their initial capital contributions. The company's 25-percent participation in the project is expected to require cash outflow, excluding capitalized interest, of approximately $90 mill ion in 2007, $300 million in 2008 and $170 million in 2009.

In November 2005, EnCana Marketing, a subsidiary of EnCana Corp., entered into an agreement with Rockies Express for 500 million cubic feet per day of natural gas capacity on the REX. During 2006, Rockies Express purchased Segment 1 of the Entrega Pipeline, which runs from the Meeker Hub in Colorado to Wamsutter, Wyoming, and in February 2007, completed Segment 2 of the Entrega Pipeline, which connects Wamsutter to an interconnection with the REX at the Cheyenne Hub in Colorado. The entire Entrega system was placed into service in February 2007. In February 2006, Sempra Pipelines & Storage and KMP 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 will effectively extend the REX to the Opal Hub in Wyoming.

In 2004, the company acquired the rights to develop Liberty, a salt cavern natural gas storage facility located in Calcasieu Parish, Louisiana. In May 2005, ProLiance Transportation and Storage, LLC (ProLiance) acquired a 25-percent ownership in Liberty. The construction of the facility began in March 2006, and it is expected to be in service in the second quarter of 2007. The facility will provide 17 bcf of working natural gas capacity for storage and will be connected to the Cameron and Port Arthur Pipelines under development by Sempra Pipelines & Storage to connect area LNG regasification terminals to the interstate gas transmission system. The estimated project cost is approximately $175 million, of which $104 million has been expended to date, primarily in 2006.

In September 2006, Sempra Pipelines & Storage and ProLiance jointly acquired three salt caverns representing 10 bcf to 12 bcf of potential natural gas storage capacity in Cameron Parish, Louisiana. Subject to finalization of development plans and regulatory approval, the property will be developed into a natural gas storage project. Sempra Pipelines & Storage will own 75 percent of the project and be responsible for development and operation of the facility. ProLiance will own a 25-percent interest in the project. Once developed, the newly acquired property and caverns would ultimately become an extension of Liberty. The estimated project cost is approximately $191 million, of which $32 million has been expended through December 31, 2006.

Sempra Pipelines & Storage is currently expanding its existing pipelines in Baja California, Mexico, and adding a spur line to connect Sempra LNG’s Energía Costa Azul terminal to an existing Sempra Energy natural gas pipeline in Mexico with interconnection to the U.S. border. The estimated cost of this project is $200 million and is expected to be completed in early 2008.

Additional discussion of investing activities by Sempra Pipelines & Storage, including the $202 million cumulative foreign currency exchange adjustment relating to its investments in Argentina, is provided in Notes 2 and 3 of the notes to Consolidated Financial Statements.

Future Construction Expenditures and Investments

The company expects to make capital expenditures and investments of $2.1 billion in 2007. Significant capital expenditures and investments are expected to include $1.1 billion for Sempra Utility plant improvements and $1.0 billion of capital expenditures at its other subsidiaries, including the development of LNG facilities and natural gas pipelines. These expenditures and investments are expected to be financed by cash flows from operations, the 2006 asset sales and security issuances.

Over the next five years, the company expects to make capital expenditures and investments of $6.6 billion at the Sempra Utilities, and has identified $4.4 billion of capital expenditures at the other subsidiaries, including the development of the LNG facilities and natural gas pipelines.

In December 2005, SDG&E submitted its initial request to the CPUC for a proposed new transmission power line between the San Diego region and the Imperial Valley of southern California. The proposed line, called the Sunrise Powerlink, would be capable of providing electricity to 650,000 homes and is estimated to cost $1.3 billion, of which SDG&E's participation is expected to be $1.0 billion. Additional information on the Sunrise Powerlink is provided in Note 13 of the notes to Consolidated Financial Statements.

Construction, investment and financing programs are periodically reviewed and revised by the company in response to changes in regulation, economic conditions, competition, customer growth, inflation, customer rates, the cost of capital and environmental requirements, as discussed in Note 15 of the notes to Consolidated Financial Statements.

The company's level of construction expenditures and investments in the next few years may vary substantially, and will depend on the availability of financing, regulatory approvals and business opportunities providing desirable rates of return. The company intends to finance its capital expenditures in a manner that will maintain its strong investment-grade ratings and capital structure.

The amounts and timing of capital expenditures are subject to approvals by the CPUC, the FERC and other regulatory bodies.

SDG&E's involvement with the Otay Mesa power plant is discussed in Note 13 of the notes to Consolidated Financial Statements.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash provided by (used in) financing activities totaled $(612) million, $1.0 billion and $(389) million for 2006, 2005 and 2004, respectively.

The 2006 change was due to a $600 million issuance of common stock in 2005 in connection with the Equity Units' $600 million purchase contract settlement, $791 million reduction in short-term debt in 2006 compared to $659 million net borrowings in 2005 and a $210 million decrease in issuances of long-term debt in 2006, offset by the redemption of $200 million of mandatorily redeemable preferred securities in 2005, $266 million higher payments on long-term debt in 2005 primarily from the retirement of El Dorado's project finance debt and an $88 million open market repurchase of common stock in the first half of 2005. Additionally, in June 2006, Sempra Financial effectively sold the majority of its interests in affordable-housing projects to an unrelated party subject to certain guarantees. Because of the guarantees, the $83 million of proceeds from the transaction has been recorded as a financing rather than as a sale.

The 2005 increase in cash provided by financing activities compared to 2004 was due to a $1.1 billion decrease in payments on long-term debt, a $600 million issuance of common stock in 2005 in connection with the Equity Units' $600 million purchase contract settlement and a $275 million net increase in short-term borrowings, offset by a $235 million decrease in issuances of long-term debt, the redemption of $200 million of mandatorily redeemable preferred securities, an $88 million open market repurchase of common stock in the first half of 2005 and a $73 million increase in dividends paid in 2005.

Long-Term and Short-Term Debt

During 2006, the company's long-term debt increased $293 million to $5.2 billion. At December 31, 2006, the company's long-term debt had a weighted average life to maturity of 9.9 years and a weighted average interest rate of 5.18 percent. In 2006, the company issued $552 million in long-term debt.

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 and related tax-exempt industrial development bonds of a similar weighted-average maturity. The bonds will secure the repayment of tax-exempt industrial development bonds of an identical amount, maturity and interest rate issued by the City of Chula Vista, the proceeds of which have been loaned to SDG&E and will be repaid with payments on the 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, as discussed in Note 5 of the notes to Consolidated Financial Statements. Related to the debt, Sempra Pipelines & Storage recorded bonds receivable for the same amount.

Payments on long-term debt in 2006 primarily included $161 million of SDG&E's first mortgage bonds and $66 million of rate-reduction bonds. Also in 2006, Sempra Financial repaid $24 million of debt incurred to acquire limited partnership interests.

In November 2005, SDG&E and SoCalGas each publicly offered and sold $250 million of 5.30 percent and 5.75 percent, respectively, first mortgage bonds, maturing in 2015 and 2035, respectively.

In May 2005, SDG&E publicly offered and sold $250 million of 5.35 percent first mortgage bonds, maturing in 2035.

Payments on long-term debt in 2005 included $300 million of notes payable that matured in December 2005 and $66 million related to SDG&E's rate-reduction bonds. Also in 2005, Sempra Generation repaid $122 million of debt assumed in its purchase of the remaining interest in El Dorado and Sempra Financial repaid $28 million of debt incurred to acquire limited partnership interests.

In December 2004, SoCalGas issued $100 million of floating-rate first mortgage bonds maturing in December 2009. The interest rate is based on the 3-month LIBOR rate plus 0.17 percent.

In June 2004, SDG&E issued $251 million of first mortgage bonds and applied the proceeds in July to refund an identical amount of first mortgage bonds and related tax-exempt industrial development bonds of a shorter maturity. The bonds secure the repayment of tax-exempt industrial development bonds of an identical amount, maturity and interest rate issued by the City of Chula Vista, the proceeds of which were loaned to SDG&E and which are repaid with payments on the first mortgage bonds. The bonds were initially issued as auction-rate securities, but SDG&E entered into floating-to-fixed interest-rate swap agreements that effectively changed the bonds' interest rates to fixed rates in September 2004. The swaps are set to expire in 2009.

In May 2004, the company issued $600 million of senior unsecured notes, consisting of $300 million of 4.75-percent fixed-rate, five-year notes and $300 million of four-year, floating-rate notes. The proceeds of the issuance were used to repay $500 million of debt maturing July 1, 2004, and for general corporate purposes.

Payments on long-term debt in 2004 included $500 million of notes payable that matured in July 2004, $426 million of first mortgage bonds and $66 million of rate-reduction bonds. Also in 2004, Sempra Generation purchased the assets of Mesquite Trust, thereby extinguishing $630 million of debt outstanding, and Sempra Financial repaid $34 million of debt incurred to acquire limited partnership interests.

Note 5 of the notes to Consolidated Financial Statements provides information concerning lines of credit and further discussion of debt activity.

Capital Stock Transactions

During 2005, 19.7 million shares of common stock were issued at $30.52 per share in settlement of the 2002 share purchase contracts included in the company's $600 million of Equity Units. Further discussion of Equity Units is provided in Note 12 of the notes to Consolidated Financial Statements. Also during 2005, the company repurchased common stock for $95 million, including 2.3 million shares of common stock at a cost of $88 million in connection with the share repurchase program discussed in Note 12 of the notes to Consolidated Financial Statements. Cash provided by employee stock option exercises was $79 million, $90 million and $87 million in 2006, 2005 and 2004, respectively.

Dividends

Dividends paid on common stock were $283 million in 2006, $268 million in 2005 and $195 million in 2004. The increases were primarily due to increases in the per-share quarterly dividend from $0.25 in 2004 to $0.29 in 2005 and to $0.30 in 2006. In February 2007, the company's board of directors approved an increase in the quarterly dividend from $0.30 per share to $0.31 per share.

The payment and amount of future dividends are within the discretion of the company's board of directors. The CPUC's regulation of the Sempra Utilities' capital structure limits the amounts that are available for loans and dividends to the company from the Sempra Utilities. At December 31, 2006, SoCalGas could have provided a total (combined loans and dividends) of $78 million to Sempra Energy and no amount was available from SDG&E.

Capitalization

Total capitalization, including short-term debt and the current portion of long-term debt and excluding the rate-reduction bonds (which are non-recourse to the company), at December 31, 2006 was $13.1 billion. The debt-to-capitalization ratio was 41 percent at December 31, 2006. Significant changes affecting capitalization during 2006 included common stock issuances, long-term borrowings and repayments, reductions in short-term borrowings, comprehensive income and dividends. Additional discussion related to the significant changes is provided in Notes 5 and 12 of the notes to Consolidated Financial Statements and "Results of Operations" above.

Commitments

The following is a summary of the company's principal contractual commitments at December 31, 2006. Additional information concerning commitments is provided above and in Notes 5, 8, 11 and 15 of the notes to Consolidated Financial Statements.

(Dollars in millions)	2007	2008 and 2009	2010 and 2011	Thereafter	Total
Short-term debt	$ 252	$ --	$ --	$ --	$ 252
Long-term debt	681	730	782	3,013	5,206
Interest on debt (1)	271	463	341	1,638	2,713
Due to unconsolidated affiliates	--	62	100	--	162
Preferred stock of subsidiaries subject to mandatory redemption	3	14	--	--	17
Operating leases	117	202	149	162	630
Litigation reserves	110	53	58	79	300
Purchased-power contracts	328	716	621	2,478	4,143
Natural gas contracts	1,518	1,450	952	155	4,075
LNG contract (2)	--	494	2,216	31,032	33,742
Construction commitments	524	131	5	12	672
SONGS decommissioning	15	5	--	334	354
Other asset retirement obligations	20	29	29	731	809
Pension and postretirement benefit obligations (3)	113	245	319	1,006	1,683
Environmental commitments	40	22	1	4	67
Other	8	11	17	13	49
Totals	$ 4,000	$ 4,627	$ 5,590	$ 40,657	$ 54,874

(1) Expected interest payments were calculated using the stated interest rate for fixed rate obligations, including floating-to-fixed interest rate swaps. Expected interest payments were calculated based on forward rates in effect at December 31, 2006 for variable rate obligations, including fixed-to-floating interest rate swaps.

(2) Sempra LNG has a purchase agreement with BP 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 the Southern California border index price plus an estimated 1 percent escalation per year. Sempra LNG has contracts to sell a portion of the volumes purchased under the BP agreement 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.

The table excludes trading liabilities and commitments which are primarily offset by trading assets; contracts between consolidated affiliates; intercompany debt; individual contracts that have annual cash requirements less than $1 million; and employment contracts.

Off Balance-sheet Arrangements

As discussed in Note 5 in regards to Rockies Express project financing and in Note 15 in regards to Chilquinta Energía Finance Co., LLC, an affiliate of the company's Peruvian and Chilean entities, the company has provided guarantees aggregating $223 million at December 31, 2006, to unrelated parties.

Credit Ratings

Credit ratings of the company and its principal subsidiaries remained unchanged at investment grade levels in 2006. As of January 31, 2007, credit ratings for Sempra Energy and its principal subsidiaries were as follows:

	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	F1+
SOCALGAS			
Secured debt	A+	A1	AA
Unsecured debt	A-	A2	AA-
Preferred stock	BBB+	Baa1	A+
Commercial paper	A-1	P-1	F1+
PACIFIC ENTERPRISES			
Preferred stock	BBB+	--	A
SEMPRA GLOBAL			
Unsecured debt guaranteed by Sempra Energy	--	Baa1	--
Commercial paper guaranteed by Sempra Energy	A-2	P-2	F1

As of January 31, 2007, the company has a stable ratings outlook from all three credit rating agencies.

FACTORS INFLUENCING FUTURE PERFORMANCE

The Sempra Utilities' operations and Sempra Generation's long-term contracts generally provide relatively stable earnings and liquidity. Sempra LNG and Sempra Pipelines & Storage are also expected to provide relatively stable earnings and liquidity upon the completion of their construction programs, but to require substantial funding during the construction period. Sempra Commodities experiences significant volatility in earnings and liquidity requirements. Notes 13 through 15 of the notes to Consolidated Financial Statements describe some of the matters that could affect future performance.

Litigation

Note 15 of the notes to Consolidated Financial Statements describes litigation (primarily cases arising from the California energy crisis and Sempra Generation's contract with the DWR), the ultimate resolution of which could have a material adverse effect on future performance.

Sempra Utilities

Notes 13 and 14 of the notes to Consolidated Financial Statements describe electric and natural gas regulation and rates, and other pending proceedings and investigations.

Sempra Global

Investments

As discussed in "Cash Flows From Investing Activities," the company's investments will significantly impact the company's future performance.

Sempra Generation

In April 2006, Sempra Generation completed the sale of its 305-MW Twin Oaks Power plant for $479 million in cash. In July 2006, Sempra Generation and Riverstone Holdings completed the sale of the jointly owned Topaz power plants, including the 632-MW Coleto Creek Power plant for $1.15 billion in cash. The sales of Sempra Generation's Energy Services and Facilities Management businesses closed in April 2006 and June 2006, respectively, for a combined sales price of $95 million. In July 2006, Sempra Generation sold its exploration and production subsidiary, SEPCO, for $225 million in cash. These five sales contributed nearly $560 million to net income in 2006. Additional information regarding these activities is provided above under "Capital Resources and Liquidity" and in Notes 3 and 4 of the notes to Consolidated Financial Statements.

Sempra Pipelines & Storage

During 2006, Sempra Pipelines & Storage's ownership interest in the Rockies Express natural gas pipeline project was reduced to 25 percent from its previous one-third ownership interest. In addition, an application for FERC authorization to construct the pipeline was filed. Additional information regarding Rockies Express is provided above under "Capital Resources and Liquidity."

In 2006, Sempra Pipelines & Storage began construction of the Liberty natural gas storage facility located in Calcasieu Parish, Louisiana, in which ProLiance has a 25-percent ownership interest. The facility will provide 17 bcf of working natural gas capacity for storage and commercial operations are expected to commence in the second quarter of 2007. In addition, in September 2006, the company and ProLiance jointly acquired three salt caverns representing 10 bcf to 12 bcf of potential natural gas storage capacity in Cameron Parish, Louisiana. Additional information regarding these facilities is provided above under "Capital Resources and Liquidity."

In June 2006, Sempra Energy's management decided to sell Bangor Gas and Frontier Energy, Sempra Pipelines & Storage's natural gas distribution companies. In January 2007, Sempra Pipelines & Storage entered into agreements to sell the companies, subject to regulatory approvals.

The Argentine economic decline and government responses (including Argentina's unilateral, retroactive abrogation of utility agreements early in 2002) are continuing to adversely affect the company's investment in two Argentine utilities. The company has decided to sell its interests in the two utilities. Information regarding this situation is provided in Notes 3 and 15 of the notes to Consolidated Financial Statements.

Sempra LNG

Sempra LNG is in the process of constructing the Energía Costa Azul LNG receiving terminal in Baja California, Mexico and the Cameron LNG receiving terminal in Louisiana. In June 2006, Sempra LNG received approval from the FERC to construct the Port Arthur LNG receipt terminal in Texas. In May 2006, Sempra LNG received non-binding expressions of interest in the potential expansion of its Energía Costa Azul LNG receipt terminal in Baja California, Mexico. Additional information regarding these activities is provided above under "Capital Resources and Liquidity" and in Note 2 of the notes to Consolidated Financial Statements.

Sempra LNG intends to utilize its regasification terminals by entering into long-term firm capacity contracts whereby customers would pay Sempra LNG fees to use Sempra LNG's facilities to regasify the customer's LNG. In other instances, Sempra LNG would enter into long-term supply agreements for the purchase of LNG and regasify it at its terminals for sale to other parties. Reduced availability of LNG due to inadequate supplies, delays in the development of new liquefaction capacity and increased demand are affecting the timing of development of new LNG facilities and expansion of existing facilities, and are likely to delay near-term attainment of full-capacity utilization when facilities under construction become operational. The company's potential LNG suppliers also may be subject to international political and economic pressures and risks which may also affect the supply of LNG.

Other

As noted in Note 7 of the notes to Consolidated Financial Statements, income tax benefits from synthetic fuels credits were partially phased out in 2006. The partial phaseout may extend into 2007, the last year of the program.

In June 2006, Sempra Financial effectively sold the majority of its interests in affordable-housing projects to an unrelated party subject to certain guarantees. Because of the guarantees, the transaction has been recorded as a financing transaction rather than as a sale. In the future, the company expects slightly higher income tax rates since the transaction almost completely eliminated the income tax benefits from the company's affordable-housing investments.

Market Risk

Market risk is the risk of erosion of the company's cash flows, net income, asset values and equity due to adverse changes in prices for various commodities, and in interest and foreign-currency rates.

The company has adopted policies governing its market risk management and trading activities of all affiliates. Assisted by the company’s Energy Risk Management Group (ERMG) and the Sempra Utilities’ Risk Management Department (SURMD), the company’s Energy Risk Management Oversight Committee (ERMOC) and each of the Sempra Utilities’ Risk Management Committees (RMC), consisting of senior officers, establish policy for and oversee energy risk management activities and monitor the results of trading and other activities to ensure compliance with the company's stated energy risk management and trading policies. The ERMG and the SURMD receive daily information detailing positions regarding market positions that create credit, liquidity and market risk from all non-CPUC-regulated affiliates and the Sempra

Utilities, respectively. Independently from the company’s energy procurement department, the ERMG and the SURMD monitor energy price risk management and measure and report the market and credit risk associated with these positions.

Along with other tools, the company 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 company has adopted the variance/covariance methodology in its calculation of VaR, and uses both the 95-percent and 99-percent confidence intervals. VaR is calculated independently by the ERMG for all non-CPUC-regulated affiliates and by the SURMD for the Sempra Utilities. Historical and implied volatilities and correlations between instruments and positions are used in the calculation. 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 comp any policy and is in compliance with risk management and trading activity plans that have been filed and approved by the CPUC. Any costs or gains/losses associated with the use of energy and natural gas derivatives, which use is in compliance with CPUC approved plans, are considered to be commodity costs that are passed on to customers on a substantially concurrent basis.

Following is a summary of Sempra Commodities' trading VaR profile (using a one-day holding period, at the two confidence levels) in millions of dollars:

	95%		99%	
December 31, 2006	$ 13.4		$ 18.8	
2006 range	$ 5.5	to $ 37.7	$ 7.8	to $ 53.1
December 31, 2005	$ 16.5		$ 23.3	
2005 range	$ 5.7	to $ 27.5	$ 7.9	to $ 38.3

The 2006 increase in the maximum VaR amounts was due to increased trading volumes.

Revenue recognition is discussed in Notes 1 and 10 of the notes to Consolidated Financial Statements and the additional market risk information regarding derivative instruments is discussed in Note 10 of the notes to Consolidated Financial Statements.

The following discussion of the company's primary market risk exposures as of December 31, 2006 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. The company's market risk is impacted by changes in volatility and liquidity in the markets in which these commodities or related financial instruments are traded. The company's various subsidiaries are exposed, in varying degrees, to price risk, primarily in the petroleum, metals, natural gas and electricity markets. The company's policy is to manage this risk within a framework that considers the unique markets, and operating and regulatory environments of each subsidiary.

Sempra Commodities

Sempra Commodities derives most of its revenue from its worldwide trading activities in natural gas, electricity, petroleum products, metals and other commodities. As a result, Sempra Commodities is exposed to price volatility in the related domestic and international markets. Sempra Commodities conducts these activities within a structured and disciplined risk management and control framework that is based on clearly communicated policies and procedures, position limits, active and ongoing management monitoring and oversight, clearly defined roles and responsibilities, and daily risk measurement and reporting.

Sempra Utilities

The Sempra Utilities’ market risk exposure is limited due to CPUC-authorized rate recovery of the costs of commodity purchase, intrastate transportation and storage activity. However, the Sempra Utilities may, at times, be exposed to market risk as a result of SDG&E's natural gas PBR and electric procurement activities or SoCalGas' GCIM, which are discussed in Note 14 of the notes to Consolidated Financial Statements. If commodity prices were to rise too rapidly, it is likely that volumes would decline. This 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, 2006, the total VaR of the Sempra Utilities' natural gas and electric positions was not material, and the procurement activities are in compliance with the procurement plans filed with and approved by the CP UC.

Interest Rate Risk

The company is exposed to fluctuations in interest rates primarily as a result of its short-term and long-term debt. Subject to regulatory constraints, interest-rate swaps may be used to adjust interest-rate exposures. The company periodically enters into interest-rate swap agreements to moderate its exposure to interest-rate changes and to lower its overall costs of borrowing.

At December 31, 2006, the Sempra Utilities had $2.4 billion of fixed-rate, long-term debt and $0.4 billion of variable-rate, long-term debt. Interest on fixed-rate utility debt is fully recovered in rates on a historical cost basis and interest on variable-rate debt is provided for in rates on a forecasted basis. At December 31, 2006, utility fixed-rate, long-term debt, after the effects of interest-rate swaps, had a one-year VaR of $235 million and utility variable-rate, long-term debt, after the effects of interest-rate swaps, had a one-year VaR of $6 million. Non-utility long-term debt (fixed-rate and variable-rate) subject to VaR modeling totaled $2.2 billion at December 31, 2006, with a one-year VaR of $64 million, after the effects of interest-rate swaps.

At December 31, 2006, the notional amount of interest-rate swap transactions totaled $1.2 billion. Note 5 of the notes to Consolidated Financial Statements provides further information regarding interest-rate swap transactions.

In addition, the company is subject to the effect of interest-rate fluctuations on the assets of its pension plans, other postretirement plans and the nuclear decommissioning trust. However, the effects of these fluctuations, as they relate to the Sempra Utilities, are expected to be passed on to customers.

Credit Risk

Credit risk is the risk of loss that would be incurred as a result of nonperformance by counterparties of their contractual obligations. As with market risk, the company has adopted policies governing the management of credit risk. Credit risk management is performed by the ERMG and the Sempra Utilities' credit department and overseen by the ERMOC and the Sempra Utilities' respective RMC. Using rigorous models, the ERMG, RMD and the company calculate current and potential credit risk to counterparties on a daily basis and monitor actual balances in comparison to approved limits. The company avoids concentration of counterparties whenever possible, and management believes its credit policies associated with counterparties significantly reduce overall credit risk. These policies include an evaluation of prospective counterparties' financial condition (including credit ratings), collateral requirements under certain ci rcumstances, the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty, and other security such as lock-box liens and downgrade triggers. At December 31, 2006, Sempra Commodities' 20 largest customers had balances totaling $1.3 billion, of which $887 million corresponds to investment-grade customers, with individual customers varying from $34 million to $212 million. The company believes that adequate reserves have been provided for counterparty nonperformance.

As described in Note 15 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, beginning 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 operational, development projects at Sempra LNG and Sempra Pipelines & Storage will place significant reliance on the ability of their suppliers to perform on long-term agreements and on the company's ability to enforce contract terms in the event of non-performance. Also, factors considered in the evaluation of a project for development include the negotiation of customer and supplier agreements, and therefore, reliance on these agreements for future performance. The decision to go forward on development projects may also be based on these agreements.

The company monitors credit risk through a credit approval process and the assignment and monitoring of credit limits. These credit limits are established based on risk and return considerations under terms customarily available in the industry.

As noted above under "Interest Rate Risk", the company periodically enters into interest-rate swap agreements to moderate exposure to interest-rate changes and to lower the overall cost of borrowing. The company would be exposed to interest-rate fluctuations on the underlying debt should counterparties to the agreement not perform.

Foreign Currency Rate Risk

The company has investments in entities whose functional currency is not the U.S. dollar, exposing the company to foreign exchange movements, primarily in Latin American currencies. 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 $202 million as of December 31, 2006. These non-cash adjustments continue to occur based on fluctuations in the Argentine peso and, until the decision was made in December 2006 to sell these investments, did not affect net income, but did affect other comprehensive income and accumulated other comprehensive income (loss). Further discussion is provided in Note 3 of the notes to Consolidated Financial Statements.

The company's primary objective with respect to currency risk is to preserve the economic value of its overseas investments and to reduce net income volatility that would otherwise occur due to exchange-rate fluctuations.

Sempra Energy's net investment in its 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, the company offsets material cross-currency transactions and net income exposure through various means, including financial instruments and short-term investments.

Because the company does not hedge its net investment in foreign countries, it is susceptible to volatility in other comprehensive income caused by exchange rate fluctuations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES AND KEY NON-CASH PERFORMANCE INDICATORS

Certain accounting policies are viewed by management as critical because their application is the most relevant, judgmental and/or material to the company's financial position and results of operations, and/or because they require the use of material judgments and estimates.

The company's significant accounting policies are described in Note 1 of the notes to Consolidated Financial Statements. 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, are the following:

Description	Assumptions & Approach Utilized	Effect if Different Assumptions Used
Contingencies		
Statement of Financial Accounting Standards (SFAS) 5, *Accounting for Contingencies*, establishes the amounts and timing of when the company provides for contingent losses. The company continuously assesses potential loss contingencies for litigation claims, environmental remediation and other events.	The company accrues losses for the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. For loss contingencies, the loss is accrued if (1) information is available that indicates it is probable that the loss has been incurred, given the likelihood of uncertain future events and (2) the amounts of the loss can be reasonably estimated. SFAS 5 does not permit the accrual of contingencies that might result in gains.	Details of the company's issues in this area are discussed in Note 15 of the notes to Consolidated Financial Statements.

Description	Assumptions & Approach Utilized	Effect if Different Assumptions Used
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 contained in SFAS 71.	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 changes in the regulatory environment or the utility's competitive position, issuance of a regulatory commission order or passage of new legislation. To the extent that circumstances associated with regulatory balances change, the regulatory balances could be adjusted.	Details of the Sempra Utilities' regulatory assets and liabilities are discussed in Note 1 of the notes to Consolidated Financial Statements.
Income Taxes		
SFAS 109, *Accounting for Income Taxes*, governs the way the company provides for income taxes.	The company's 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. The anticipated resolution of income tax issues considers past resolutions of the same or similar issue, the status of any income-tax examination in progress and positions taken by taxing authorities with other taxpayers with similar issues. The likelihood of deferred tax recovery is based on analyses of the deferred tax assets and the company's expectation of future taxable income, based on its strategic planning.	Actual income taxes could vary from estimated amounts due to the future impacts of various items including changes in tax laws, the company's financial condition in future periods, and the resolution of various income tax issues between the company and the various taxing authorities. Details of the company's issues in this area are discussed in Note 7 of the notes to Consolidated Financial Statements.

Description	Assumptions & Approach Utilized	Effect if Different Assumptions Used
Derivatives		
SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and related Emerging Issues Task Force (EITF) Issues govern the accounting requirements for derivatives.	The company values 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. The company also utilizes normal purchase or sale accounting for certain contracts. As discussed elsewhere herein, the company uses exchange quotations or other third-party pricing to estimate fair values whenever possible. When no such data is available, it uses internally developed models and other techniques. The assumed collectibility of receivables considers the aging of the receivables, the credit-worthiness of customers and the enforceability of contracts, where applicable.	The application of hedge accounting to certain derivatives and the normal purchase or sale election is made on a contract-by-contract basis. Utilizing hedge accounting or the normal purchase or sale election in a different manner could materially impact reported results. The effects of derivatives' accounting have a significant impact on the balance sheet of Sempra Commodities and the Sempra Utilities but have no significant effect on the Sempra Utilities' results of operations because of the principles contained in SFAS 71 and the application of the normal purchase or sale election. Details of the company's financial instruments are discussed in Note 10 of the notes to Consolidated Financial Statements.
Impairments 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.	The company uses the best information available to estimate fair value of its long-lived assets and may use more than one source. Judgment is exercised to estimate the future cash flows, 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.	In connection with the evaluation of long-lived assets in accordance with the requirements of SFAS 144, the fair value of the asset can vary if different estimates and assumptions were used in the applied valuation techniques. Discussion of impairment of long-lived assets is included in Note 1 of the notes to Consolidated Financial Statements. In addition, details of the company's impairment loss relating to Bangor Gas and Frontier Energy are discussed in Note 4 of the notes to Consolidated Financial Statements.

Description	Assumptions & Approach Utilized	Effect if Different Assumptions Used
Impairments of Equity Method Investments		
Accounting Principles Board Opinion (APBO) 18, *The Equity Method of Accounting for Investments in Common Stock*. Investments are generally accounted for under the equity method when the company has an ownership interest of twenty to fifty percent. For the investments the company accounts 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 APBO 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.	The company considers 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, in addition to the annual impairment test of goodwill, the company reevaluates the amount at which the company carries the excess of cost over fair value of net assets accounted for under the equity method. Unamortized goodwill related to unconsolidated subsidiaries is discussed in Note 1 of the notes to Consolidated Financial Statements. When calculating estimates of fair or realizable values, the company considers whether it intends to sell the investment or continue to hold it. For certain investments that will be held, critical assumptions include the availability and costs of natural gas, competing fuels (primarily propane) and electricity. Sempra Pipelines & Storage owns non-controlling interests in two Argentine natural gas distribution companies. In view of continuing disputes with the Argentine government, the company decided to sell its investments in these companies in December 2006. The company recorded a non-cash impairment charge to net income of $221 million in the fourth quarter of 2006.	The company estimated the fair value of its 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. Further details are discussed in Note 3 of the notes to Consolidated Financial Statements.

Description	Assumptions & Approach Utilized	Effect if Different Assumptions Used
Defined Benefit Plans		
The company has funded and unfunded noncontributory defined benefit plans that together cover substantially all of its employees. The company also has other postretirement benefit plans covering substantially all of its employees. The company accounts for its pension and other postretirement benefit plans under SFAS 87, *Employers' Accounting for Pensions*, and SFAS 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*, respectively, 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).*	The measurement of the company's pension and postretirement obligations, and costs and liabilities is dependent on a variety of assumptions used by the company. The critical assumptions used in developing the required estimates include the following key factors: discount rate, expected return on plan assets, health care cost trend rates, mortality rates, rate of compensation increases and 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. The company considers current market conditions, including interest rates, in making these assumptions.	The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, longer or shorter participant life spans, or more or fewer lump sum versus annuity payout elections made by plan participants. These differences, other than as related to the Sempra Utilities, 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 recorded. 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 or the assumed rate of return on plan assets would be less than $1 million in each case. Additional discussion of pension plan assumptions is included in Note 8 of the notes to Co nsolidated Financial Statements.

Choices among alternative accounting policies that are material to the company's financial statements and information concerning significant estimates have been discussed with the audit committee of the board of directors.

Key non-cash performance indicators for the company's subsidiaries include numbers of customers and quantities of natural gas and electricity sold for the Sempra Utilities, and plant availability factors at Sempra Generation's generating plants. For competitive reasons, Sempra Generation does not disclose its plant availability factors. The Sempra Utilities information is provided in "Overview" and "Results of Operations." Sempra Commodities does not use non-cash performance factors. Its key indicators are profit margins by product line and by geographic area. The table under "Net Income by Business Unit – Sempra Commodities" provides this information for Sempra Commodities. Other than its two small natural gas utilities in the eastern United States, for which the company has entered into agreements in January 2007 to sell, Sempra Pipelines & Storage's only consolidated operations are in Mexico. The natural gas distribution utility that operates in three separate areas in Mexico has increased its customer count to 101,000 and its sales volume to almost 64 million cubic feet per day in 2006. The pipeline system in Mexico had contracted capacity of 450 million cubic feet per day in 2006 and 2005.

NEW ACCOUNTING STANDARDS

Relevant pronouncements that have recently become effective and have had or may have a significant effect on the company's financial statements are described in Note 1 of the notes to Consolidated Financial Statements.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

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

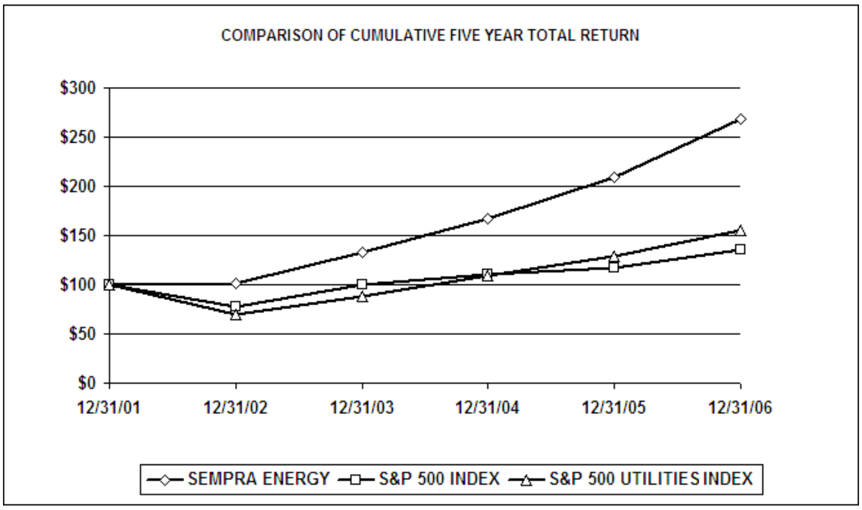
QUARTERLY COMMON STOCK DATA

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006				
Market price				
High	$49.54	$47.29	$50.91	$57.35
Low	$44.66	$42.90	$44.42	$50.19
2005				
Market price				
High	$44.66	$41.71	$47.43	$47.86
Low	$35.53	$37.07	$40.98	$41.10

Dividends declared were $0.30 and $0.29 per share in each quarter in 2006 and 2005, respectively.

PERFORMANCE GRAPH -- COMPARATIVE TOTAL SHAREHOLDER RETURNS

The following graph compares the percentage change in the cumulative total shareholder return on the company's common stock for the period January 1, 2002 through December 31, 2006, 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 the company's common stock, the S&P 500 Index and the S&P 500 Utilities Index on January 1, 2001, and the reinvestment of all dividends.

FIVE YEAR SUMMARY

(In millions, except per share amounts)	At December 31 or for the years then ended				
	2006	2005	2004	2003	2002
Operating revenues					
Sempra Utilities:					
Natural gas	$ 4,763	$ 5,253	$ 4,537	$ 4,005	$ 3,255
Electric	2,136	1,789	1,658	1,786	1,282
Sempra Global and parent	4,862	4,470	3,039	1,906	1,406
Total operating revenues	$ 11,761	$ 11,512	$ 9,234	$ 7,697	$ 5,943
Operating income	$ 1,785	$ 1,089	$ 1,272	$ 1,012	$ 989
Income from continuing operations before extraordinary item and cumulative effect of changes in accounting principles	$ 1,091	$ 913	$ 915	$ 745	$ 591
Net income	$ 1,406	$ 920	$ 895	$ 649	$ 591
Income per common share from continuing operations before extraordinary item and cumulative effect of changes in accounting principles:					
Basic	$ 4.25	$ 3.71	$ 4.01	$ 3.53	$ 2.88
Diluted	$ 4.17	$ 3.62	$ 3.92	$ 3.48	$ 2.87
Net income per common share:					
Basic	$ 5.48	$ 3.74	$ 3.92	$ 3.07	$ 2.88
Diluted	$ 5.38	$ 3.65	$ 3.83	$ 3.03	$ 2.87
Dividends declared per common share	$ 1.20	$ 1.16	$ 1.00	$ 1.00	$ 1.00
Return on common equity	20.6%	16.7%	20.5%	19.3%	21.4%
Effective income tax rate	33%	4%	18%	9%	19%
Price range of common shares	$ 57.35-	$ 47.86-	$ 37.93-	$ 30.90-	$ 26.25-
	42.90	35.53	29.51	22.25	15.50
Weighted average rate base:					
SoCalGas	$ 2,477	$ 2,386	$ 2,351	$ 2,268	$ 2,222
SDG&E	$ 3,474	$ 2,902	$ 2,755	$ 2,619	$ 2,452
AT DECEMBER 31					
Current assets	$ 12,016	$ 13,827	$ 9,306	$ 8,310	$ 7,516
Total assets	$ 28,949	$ 29,246	$ 23,847	$ 22,053	$ 20,289
Current liabilities	$ 10,349	$ 12,253	$ 9,183	$ 8,662	$ 7,655
Long-term debt (excludes current portion)	$ 4,525	$ 4,815	$ 4,182	$ 3,828	$ 4,067
Trust preferred securities	$ --	$ --	$ 200 *	$ 200	$ 200
Shareholders' equity	$ 7,511	$ 6,160	$ 4,865	$ 3,890	$ 2,825
Common shares outstanding	262.0	257.2	234.2	226.6	204.9
Book value per share	$ 28.67	$ 23.95	$ 20.77	$ 17.17	$ 13.79

* The company redeemed these securities in February 2005.

Note 4 of the notes to Consolidated Financial Statements discusses discontinued operations. Note 15 of the notes to Consolidated Financial Statements discusses litigation and other contingencies.

In 2003, the company recorded a $46 million decrease to net income from the cumulative effect of changes in accounting principles. The $46 million included $29 million from the initial effect of EITF 98-10's rescission and $17 million from the consolidation of two variable interest entities pursuant to FASB Interpretation Number 46.

An extraordinary gain of $16 million was recorded in 2002 related to Sempra Commodities' acquisition of two businesses for amounts less than the fair value of the businesses' net assets.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation of the company's consolidated financial statements and related information appearing in this report. Management believes that the consolidated financial statements fairly present the form and substance of transactions and that the financial statements reasonably present the company's financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. Management also has included in the company's financial statements amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

The board of directors of the company has an Audit Committee composed of five non-management directors. The committee meets periodically with financial management and the internal auditors to review accounting, control, auditing and financial reporting matters.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Company management 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 company management, including the principal executive officer and principal financial officer, the company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control -- Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the company's evaluation under the framework in *Internal Control -- Integrated Framework*, management concluded that the company's internal control over financial reporting was effective as of December 31, 2006. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 has been audited by Deloitte & Touche LLP, as stated in its report, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Sempra Energy:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Sempra Energy and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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 accounti ng 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, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December

31, 2006, 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, 2006 of the Company and our report dated February 21, 2007 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of two new accounting standards.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 21, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2006 and 2005, and the related statements of consolidated income, comprehensive income and changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. 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, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board (“FASB”) Statement No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R),* effective December 31, 2006, and FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143,* effective December 31, 2005.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, 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 21, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

San Diego, California
February 21, 2007

SEMPRA ENERGY
STATEMENTS OF CONSOLIDATED INCOME

(Dollars in millions, except per share amounts)	Years ended December 31, 2006	2005	2004
OPERATING REVENUES			
Sempra Utilities	$ 6,899	$ 7,042	$ 6,195
Sempra Global and parent	4,862	4,470	3,039
Total operating revenues	11,761	11,512	9,234
OPERATING EXPENSES			
Sempra Utilities:			
Cost of natural gas	2,756	3,232	2,593
Cost of electric fuel and purchased power	721	624	576
Other cost of sales	2,689	2,588	1,629
Litigation expense	56	551	150
Other operating expenses	2,814	2,583	2,187
Depreciation and amortization	657	626	603
Franchise fees and other taxes	275	246	231
Gains on sale of assets, net	(1)	(112)	(15)
Impairment losses	9	85	8
Total operating expenses	9,976	10,423	7,962
Operating income	1,785	1,089	1,272
Other income, net	381	51	32
Interest income	109	72	69
Interest expense	(351)	(310)	(320)
Preferred dividends of subsidiaries	(10)	(10)	(10)
Income from continuing operations before income taxes and equity in earnings (losses) of certain unconsolidated subsidiaries	1,914	892	1,043
Income tax expense	641	34	190
Equity in earnings (losses) of certain unconsolidated subsidiaries	(182)	55	62
Income from continuing operations	1,091	913	915
Discontinued operations, net of income tax	315	7	(20)
Net income	$ 1,406	$ 920	$ 895
Basic earnings per share:			
Income from continuing operations	$ 4.25	$ 3.71	$ 4.01
Discontinued operations, net of income tax	1.23	0.03	(0.09)
Net income	$ 5.48	$ 3.74	$ 3.92
Weighted-average number of shares outstanding (thousands)	256,477	245,906	228,271
Diluted earnings per share:			
Income from continuing operations	$ 4.17	$ 3.62	$ 3.92
Discontinued operations, net of income tax	1.21	0.03	(0.09)
Net income	$ 5.38	$ 3.65	$ 3.83
Weighted-average number of shares outstanding (thousands)	261,368	252,088	233,852
Dividends declared per share of common stock	$ 1.20	$ 1.16	$ 1.00

See notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 920	$ 769
Restricted cash	4	12
Trade accounts receivable, net	938	973
Other accounts and notes receivable, net	97	172
Deferred income taxes	270	134
Interest receivable	40	29
Trading-related receivables and deposits, net	3,047	3,370
Derivative trading instruments	4,068	4,502
Commodities owned	1,845	2,498
Inventories	215	205
Regulatory assets	193	255
Other	317	297
Current assets of continuing operations	11,954	13,216
Current assets of discontinued operations	62	611
Total current assets	12,016	13,827
Investments and other assets:		
Due from unconsolidated affiliates	--	21
Regulatory assets arising from fixed-price contracts and other derivatives	353	398
Regulatory assets arising from pension and other postretirement benefit obligations	356	213
Other regulatory assets	472	500
Nuclear decommissioning trusts	702	638
Investments	1,086	1,091
Sundry	789	802
Total investments and other assets	3,758	3,663
Property, plant and equipment:		
Property, plant and equipment	18,916	17,136
Less accumulated depreciation and amortization	(5,741)	(5,380)
Property, plant and equipment, net	13,175	11,756
Total assets	$ 28,949	$ 29,246

See notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	December 31, 2006	December 31, 2005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 252	$ 1,043
Accounts payable - trade	1,432	1,255
Accounts payable - other	155	139
Income taxes payable	9	86
Trading-related payables	3,211	4,127
Derivative trading instruments	2,304	3,246
Commodities sold with agreement to repurchase	537	634
Dividends and interest payable	145	140
Regulatory balancing accounts, net	332	192
Fixed-price contracts and other derivatives	87	130
Current portion of long-term debt	681	98
Other	1,197	1,012
Current liabilities of continuing operations	10,342	12,102
Current liabilities of discontinued operations	7	151
Total current liabilities	10,349	12,253
Long-term debt	4,525	4,815
Deferred credits and other liabilities:		
Due to unconsolidated affiliate	162	162
Customer advances for construction	126	110
Pension and other postretirement benefit obligations, net of plan assets	609	391
Deferred income taxes	412	214
Deferred investment tax credits	67	73
Regulatory liabilities arising from removal obligations	2,330	2,313
Asset retirement obligations	1,128	958
Other regulatory liabilities	221	200
Fixed-price contracts and other derivatives	358	400
Deferred credits and other	972	1,018
Total deferred credits and other liabilities	6,385	5,839
Preferred stock of subsidiaries	179	179
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Preferred stock (50 million shares authorized; none issued)	--	--
Common stock (750 million shares authorized; 262 million and 257 million shares outstanding at December 31, 2006 and 2005, respectively; no par value)	3,245	2,958
Retained earnings	4,681	3,588
Deferred compensation	(25)	(28)
Accumulated other comprehensive income (loss)	(390)	(358)
Total shareholders' equity	7,511	6,160
Total liabilities and shareholders' equity	$ 28,949	$ 29,246

See notes to Consolidated Financial Statements.

SEMPRA ENERGY
STATEMENTS OF CONSOLIDATED CASH FLOWS

	Years ended December 31,		
(Dollars in millions)	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from continuing operations	$ 1,091	$ 913	$ 915
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	657	626	603
Gains on sale of assets, net	(1)	(112)	(15)
Impairment losses	9	85	8
Deferred income taxes and investment tax credits	77	(298)	7
Non-cash rate reduction bond expense	60	68	75
Equity in income of unconsolidated subsidiaries	(156)	(66)	(36)
Other	38	(6)	23
Quasi-reorganization resolution	12	--	--
Net changes in other working capital components	(183)	(1,196)	(404)
Changes in other assets	20	21	(47)
Changes in other liabilities	42	458	(22)
Net cash provided by continuing operations	1,666	493	1,107
Net cash provided by (used in) discontinued operations	(37)	31	(98)
Net cash provided by operating activities	1,629	524	1,009
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(1,907)	(1,377)	(1,065)
Proceeds from sale of assets from continuing operations	40	277	377
Expenditures for investments and acquisition of subsidiaries, net of cash acquired	(257)	(86)	(74)
Distribution from investment	104	--	--
Purchases of nuclear decommissioning and other trust assets	(546)	(299)	(319)
Proceeds from sales by nuclear decommissioning and other trusts	503	262	262
Dividends received from unconsolidated affiliates	431	73	59
Other	(27)	(12)	10
Net cash used in continuing operations	(1,659)	(1,162)	(750)
Net cash provided by (used in) discontinued operations	793	(25)	140
Net cash used in investing activities	(866)	(1,187)	(610)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(283)	(268)	(195)
Issuances of common stock	97	694	110
Repurchases of common stock	(37)	(95)	(5)
Issuances of long-term debt	552	762	997
Payments on long-term debt	(263)	(529)	(1,666)
Redemption of mandatorily redeemable preferred securities	--	(200)	--
Increase (decrease) in short-term debt, net	(791)	659	384
Financing transaction related to Sempra Financial	83	--	--
Other	28	(6)	(14)
Net cash provided by (used in) continuing operations	(614)	1,017	(389)
Net cash provided by discontinued operations	2	--	--
Net cash provided by (used in) financing activities	(612)	1,017	(389)
Increase in cash and cash equivalents	151	354	10
Cash and cash equivalents, January 1	769	415	405
Cash and cash equivalents, December 31	$ 920	$ 769	$ 415

See notes to Consolidated Financial Statements.

SEMPRA ENERGY
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)	Years ended December 31, 2006	2005	2004
CHANGES IN OTHER WORKING CAPITAL COMPONENTS			
(Excluding cash and cash equivalents, and debt due within one year)			
Accounts and notes receivable	$ 94	$ (79)	$ (285)
Net trading assets	(543)	(1,105)	(455)
Income taxes, net	(51)	(76)	(52)
Inventories	(3)	(38)	(27)
Regulatory balancing accounts	170	(321)	78
Regulatory assets and liabilities	4	(4)	(23)
Other current assets	(2)	(42)	(31)
Accounts payable	227	280	299
Other current liabilities	(79)	189	92
Net changes in other working capital components	$ (183)	$ (1,196)	$ (404)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	$ 337	$ 294	$ 317
Income tax payments, net of refunds	$ 601	$ 429	$ 254
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES			
Acquisition of subsidiary:			
Assets acquired	$ --	$ 132	$ --
Cash paid, net of cash acquired	--	(70)	--
Liabilities assumed	$ --	$ 62	$ --
Increase (decrease) in accounts payable from investments in property, plant and equipment	$ (43)	$ 45	$ (11)

See notes to Consolidated Financial Statements.

SEMPRA ENERGY

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2006, 2005 and 2004

(Dollars in millions)	Comprehensive Income	Common Stock	Retained Earnings	Deferred Compensation Relating to ESOP	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2003		$ 2,028	$ 2,298	$ (35)	$ (401)	$ 3,890
Net income	$895		895			895
Comprehensive income adjustments:						
Foreign currency translation adjustments (Note 1)	40				40	40
Pension adjustment	28				28	28
Available-for-sale securities	4				4	4
Financial instruments	(36)				(36)	(36)
Comprehensive income	$ 931					
Common stock dividends declared			(232)			(232)
Quasi-reorganization adjustment (Note 1)		86				86
Issuance of common stock		172				172
Tax benefit related to employee stock options		16				16
Repurchase of common stock		(5)				(5)
Common stock released from ESOP		4		3		7
Balance at December 31, 2004		2,301	2,961	(32)	(365)	4,865
Net income	$ 920		920			920
Comprehensive income adjustments:						
Foreign currency translation adjustments (Note 1)	30				30	30
Available-for-sale securities	(4)				(4)	(4)
Financial instruments	(19)				(19)	(19)
Comprehensive income	$ 927					
Common stock dividends declared			(293)			(293)
Issuance of common stock		720				720
Tax benefit related to employee stock options		26				26
Repurchase of common stock		(95)				(95)
Common stock released from ESOP		6		4		10
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 (Note 1)	(12)				(12)	(12)
Available-for-sale securities	18				18	18
Pension adjustment	(7)				(7)	(7)
Financial instruments	8				8	8
Comprehensive income	$ 1,413					
Adjustment to initially apply FASB Statement No. 158 (Notes 1 and 8)					(39)	(39)
Adoption of FASB Statement No. 123(R) (Note 9)		96				96
Common stock dividends declared			(313)			(313)
Quasi-reorganization adjustment (Note 1)		13				13
Issuance of common stock		175				175
Tax benefit related to employee stock options		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

See notes to Consolidated Financial Statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES AND OTHER FINANCIAL DATA

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Sempra Energy (the company) a California-based Fortune 500 holding company and its majority-owned subsidiaries. Sempra Energy's principal subsidiaries are San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) (collectively referred to herein as the Sempra Utilities) and Sempra Global, which is the holding company for Sempra Commodities, Sempra Generation, Sempra Pipelines & Storage, Sempra LNG and other, smaller businesses. Investments in affiliated companies over which Sempra Energy has the ability to exercise significant influence, but not control, are accounted for using the equity method. Further discussion of investments in unconsolidated subsidiaries is provided in Note 3. All material intercompany accounts and transactions have been eliminated.

In connection with charges related to litigation, the significant instances of which are discussed in Note 15, Sempra Energy management determines the allocation of the charges among its business units based on the extent of their involvement with the subject of the litigation.

Quasi-Reorganization

In 1993, Pacific Enterprises (PE), the holding company of SoCalGas, effected a quasi-reorganization for financial reporting purposes as of December 31, 1992. Certain of the liabilities established in connection with the quasi-reorganization were favorably resolved in 2004 and 2006, resulting in increases in common equity. Cash received in 2006 from the resolution of an insurance claim related to quasi-reorganization issues was reported in Quasi-reorganization Resolution on the Statements of Consolidated Cash Flows. The remaining liabilities of $24 million will be resolved in future years, and management believes the provisions established for these matters are adequate.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period, and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Although management believes the estimates and assumptions are reasonable, actual amounts ultimately may differ significantly from those estimates.

Basis of Presentation

In accordance with Statement of Financial Accounting Standards (SFAS) 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), certain operations have been reflected as discontinued operations for all periods presented in Sempra Energy's Statements of Consolidated Income, Consolidated Balance Sheets, and Statements of Consolidated Cash Flows. See Note 4 for additional information.

Regulatory Matters

Effects of Regulation

The accounting policies of the company's principal 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 SFAS 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS 71), under which 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 would be written off. Regulatory liabilities represent reductions in future rates for amounts due to customers. Information concerning regulatory assets and liabilities is provided below in "Revenues," "Regulatory Balancing Accounts" and "Regulatory Assets and Liabilities."

Regulatory Balancing Accounts

The amounts included in regulatory balancing accounts at December 31, 2006, represent net payables (payables net of receivables) of $167 million and $165 million for SoCalGas and SDG&E, respectively. The corresponding amounts at December 31, 2005 were net payables of $13 million and $179 million, respectively. These amounts are returned to customers by reducing future rates.

Except for certain costs subject to balancing account treatment, fluctuations in most operating and maintenance accounts from forecasted amounts approved by the CPUC in establishing rates affect utility earnings. Balancing accounts provide a mechanism for charging utility customers the amount actually incurred for certain costs, primarily commodity costs. The CPUC has also approved balancing account treatment for variances between forecast and actual for SoCalGas' and SDG&E’s volumes and commodity costs, eliminating the impact on earnings from any throughput and revenue variances from adopted forecast levels. Additional information on regulatory matters is included in Notes 13 and 14.

Regulatory Assets and Liabilities

In accordance with the accounting principles of SFAS 71, the company records regulatory assets and regulatory liabilities as discussed above.

Regulatory assets (liabilities) as of December 31 relate to the following matters:

(Dollars in millions)	2006	2005
SDG&E		
Fixed-price contracts and other derivatives	$ 429	$ 473
Recapture of temporary rate reduction*	56	116
Deferred taxes recoverable in rates	318	294
Unamortized loss on reacquired debt, net	38	42
Pension and other postretirement benefit obligations	220	165
Removal obligations**	(1,311)	(1,216)
Environmental costs	16	16
Other	18	29
Total	(216)	(81)
SoCalGas		
Fixed-price contracts and other derivatives	(1)	49
Environmental remediation	39	39
Unamortized loss on reacquired debt, net	37	40
Removal obligations**	(1,019)	(1,097)
Deferred taxes refundable in rates	(221)	(200)
Employee benefit costs	36	24
Pension and other postretirement benefit obligations	136	48
Other	24	28
Total	(969)	(1,069)
Total	$ (1,185)	$ (1,150)

* In connection with electric industry restructuring, which is described in Note 13, SDG&E temporarily reduced rates to its small-usage customers. That reduction is being recovered in rates through 2007.

** This is related to SFAS 143, *Accounting for Asset Retirement Obligations*, which is discussed below in "Asset Retirement Obligations."

Net regulatory assets (liabilities) are recorded on the Consolidated Balance Sheets at December 31 as follows:

(Dollars in millions)	2006	2005
Current regulatory assets	$ 193	$ 255
Noncurrent regulatory assets	1,181	1,111
Current regulatory liabilities*	(8)	(3)
Noncurrent regulatory liabilities	(2,551)	(2,513)
Total	$ (1,185)	$ (1,150)

* Included in Other Current Liabilities.

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 services under these contracts. Deferred taxes recoverable in rates are based on current regulatory ratemaking and income tax laws. SoCalGas and SDG&E expect to recover net regulatory assets related to deferred income taxes over the lives of the assets that give rise to the accumulated deferred income taxes. The regulatory asset related to the recapture of a temporary rate reduction is amortized simultaneously with the amortization of the related rate reduction bond liability and is expected to be recovered by the end of 2007. The regulatory assets related to unamortized losses on reacquired debt are being recovered over the remaining original amortization periods of the loss on reacquired debt over periods ranging from 3 months to 21 years. Regulatory assets related to environmental costs represent the portion of the company's environmental liability recognized at the end of the period in excess of the amount that has been recovered through rates charged to customers. This amount is expected 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 based on the current regulatory framework.

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.

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 was $4 million and $12 million at December 31, 2006 and 2005, respectively. The amounts are included in current assets under the caption Restricted Cash and primarily serve as cash collateral for certain debt agreements.

Collection Allowances

The allowance for doubtful accounts was $8 million, $10 million and $8 million at December 31, 2006, 2005 and 2004, respectively. The company recorded provisions for doubtful accounts of $13 million, $13 million and $12 million in 2006, 2005 and 2004, respectively. The company wrote off doubtful accounts of $15 million, $11 million and $34 million in 2006, 2005 and 2004, respectively.

The allowance for realization of trading assets was $53 million, $64 million and $56 million at December 31, 2006, 2005 and 2004, respectively. The company recorded provisions for trading assets of $15 million, $30 million and $3 million in 2006, 2005 and 2004, respectively. The company wrote off doubtful accounts of $26 million, $22 million and $14 million in 2006, 2005 and 2004, respectively.

Trading Instruments

Trading assets and trading liabilities (described further in Note 10) include option premiums paid and received, unrealized gains and losses from exchange-traded futures and options, over-the-counter (OTC) swaps, forwards, physical commodities and options. Trading instruments are recorded by Sempra Commodities 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 which 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.

Futures and exchange-traded option transactions are recorded as contractual commitments on a trade-date basis and carried at current market value based on current closing exchange quotations. Derivative commodity swaps and forward transactions are accounted for as contractual commitments on a trade-date basis and carried at fair value derived from current dealer quotations and underlying commodity-exchange quotations. OTC options are carried at fair value based on the use of valuation models that utilize, among other things, current interest, commodity and volatility rates. For long-dated forward transactions, current market values are derived using internally developed valuation methodologies based on available market information. When there is an absence of observable market data at inception, inception values are not recognized until the related portion of the transaction becomes observable or has been delivered. Where market rates are not quoted, current interest, commodity and volatility rates are estimated by reference to current market levels. Given the nature, size and timing of transactions, estimated values may differ significantly from realized values. Changes in market values are reflected in net income. Although trading instruments may have scheduled maturities in excess of one year, the actual settlement of these transactions can occur sooner, resulting in the current classification of trading assets and liabilities 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. However, metals inventories continue to be recorded at fair value.

Inventories

At December 31, 2006, inventory shown on the Consolidated Balance Sheets, which does not include Commodities Owned (which is shown as a separate caption on the Consolidated Balance Sheets), included natural gas of $134 million, and materials and supplies of $81 million. The corresponding balances at December 31, 2005 were $140 million and $65 million, respectively. Natural gas at the Sempra Utilities ($132 million and $140 million at December 31, 2006 and 2005, respectively) is valued by the last-in first-out (LIFO) method. When the Sempra Utilities' inventory is consumed, differences between the LIFO valuation and 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.

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), the company records deferred income taxes for temporary differences between the book and tax bases of assets and liabilities. Investment tax credits from prior years are being amortized to income by the Sempra Utilities over the estimated service lives of the properties. Other credits, mainly low-income housing and synthetic fuels tax credits, are recognized in income as earned. The company follows certain provisions of SFAS 109 that require regulated enterprises to recognize regulatory assets or liabilities to offset deferred tax liabilities and assets, respectively, if it is probable that such amounts will be recovered from, or returned to, customers.

The company follows Accounting Principles Board Opinion (APBO) 23, *Accounting for Income Taxes -- Special Areas*, in recording deferred taxes for investments in foreign subsidiaries and the undistributed earnings of foreign subsidiaries. "New Accounting Standards" below describes the expected impact of Financial Accounting Standards Board (FASB) Interpretation Number (FIN) 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*.

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 and Sempra Pipelines & Storage. It also reflects projects included in construction work in progress at Sempra Pipelines & Storage and Sempra LNG.

The cost of plant includes labor, materials, contract services, and certain expenditures incurred during a major maintenance outage of a generating plant. Maintenance costs are expensed as incurred. In addition, the cost of utility plant includes an allowance for funds used during construction (AFUDC), as discussed below. The cost of non-utility plant includes capitalized interest. The cost of most retired depreciable utility plant minus salvage value is charged to accumulated depreciation.

Property, plant and equipment balances by major functional categories are as follows:

	Property, Plant and Equipment at December 31,		Depreciation rates for years ended December 31,		
(Dollars in billions)	2006	2005	2006	2005	2004
Sempra Utilities:					
Natural gas operations	$ 9.1	$ 8.7	3.56 %	3.66 %	3.65 %
Electric distribution	3.7	3.5	4.13 %	4.13 %	4.11 %
Electric transmission	1.2	1.1	3.07 %	3.05 %	3.06 %
Other electric	1.2	0.6	8.70 %	9.75 %	11.33 %
Construction work in progress	0.4	0.8	NA	NA	NA
Total	15.6	14.7			
				Estimated Useful Lives	
Sempra Global and Parent:					
Land and land rights	0.1	--		NA	
Machinery and equipment					
Generating plant	1.3	1.3		4 to 35 years	
Pipelines	0.3	0.3		10 to 40 years	
Other	0.2	0.2		3 to 10 years	
Construction work in progress					
LNG	1.0	0.5		NA	
Other	0.1	--		NA	
Other	0.3	0.1		1 to 20 years	
	3.3	2.4			
Total	$ 18.9	$ 17.1			

Accumulated depreciation and decommissioning of natural gas and electric utility plant in service were $3.6 billion and $1.7 billion, respectively, at December 31, 2006, and were $3.4 billion and $1.6 billion, respectively, at December 31, 2005. 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. Accumulated depreciation for Sempra Global and Parent was $362 million and $295 million at December 31, 2006 and 2005, respectively, which includes amounts for power plants at Sempra Generation totaling $137 million and $94 million at December 31, 2006 and 2005, respectively. 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.

AFUDC, which represents the cost of debt and equity funds used to finance the construction of utility plant, is added to the cost of utility plant. Although it is not a current source of cash, AFUDC increases income and is recorded partly as an offset to interest expense and partly as a component of Other Income, Net in the Statements of Consolidated Income. AFUDC amounted to $23 million, $19 million and $18 million for 2006, 2005 and 2004, respectively. Total capitalized carrying costs, including AFUDC and the impact of Sempra Global's construction projects, were $81 million, $48 million and $27 million for 2006, 2005 and 2004, respectively.

Goodwill and Intangible Assets

Goodwill represents 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 for impairment in accordance with SFAS 142, *Goodwill and Other Intangible Assets* (SFAS 142). As of December 31, 2006 and 2005, goodwill included in Noncurrent Sundry Assets on the Consolidated Balance Sheets is recorded as follows:

(Dollars in millions)		
Sempra Commodities	$	164
Sempra Pipelines & Storage		6
	$	170

In addition, the unamortized goodwill related to unconsolidated subsidiaries (included in Investments on the Consolidated Balance Sheets), primarily those located in South America, was $254 million and $291 million at December 31, 2006 and 2005, respectively, before foreign-currency translation adjustments. Including foreign-currency translation adjustments, these amounts were $248 million and $258 million, respectively. Other intangible assets were not material at December 31, 2006 or 2005. Additional information concerning the impairment of investments in unconsolidated subsidiaries is provided in Note 3.

Long-Lived Assets

In accordance with SFAS 144, the company periodically evaluates whether events or circumstances have occurred that may affect the recoverability or the estimated useful lives of long-lived assets, the definition of which 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 based on quoted market prices or, if market prices are not available, on the estimated discounted cash flows. This calculation is performed at the lowest level for which separately identifiable cash flows exist.

During 2005, impairments included pretax write-downs of $66 million at Sempra Generation and $6 million at Sempra Pipelines & Storage for abandoned projects. Sempra Generation recorded a non-cash impairment charge to write down the carrying value of a turbine set (consisting of two gas turbines and one steam turbine) to their estimated fair values. The charge is included in Impairment Losses on the Statements of Consolidated Income. Additional information concerning impairment of long lived assets is provided in Note 4.

Asset Retirement Obligations

The company accounts for its tangible long-lived assets under SFAS 143, *Accounting for Asset Retirement Obligations* (SFAS 143), and FIN 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS 143* (FIN 47). SFAS 143 and FIN 47 require the company 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. It requires recording of 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 recognize 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. Accordingly, a regulatory liability has been recorded to reflect that the Sempra Utilities have collected the funds from customers more quickly than SFAS 143 and FIN 47 would accrete the retirement liability and depreciate the asset.

Upon the adoption of SFAS 143 and FIN 47, the company recognized asset retirement obligations related to fuel storage tanks, underground natural gas storage facilities and wells, hazardous waste storage facilities, decommissioning of its nuclear power facilities, the California natural gas transmission pipeline, natural gas distribution, electric distribution, and electric transmission systems assets, and the site restoration of certain generation power plants.

The changes in the asset retirement obligations for the years ended December 31, 2006 and 2005 are as follows:

(Dollars in millions)	2006	2005
Balance as of January 1	$ 977*	$ 348
Adoption of FIN 47	--	619
Accretion expense	63	25
Payments	(12)	(16)
Revisions to estimated cash flows	135	1
Balance as of December 31	$ 1,163*	$ 977*

* The current portion of the obligation is included in Other Current Liabilities on the Consolidated Balance Sheets.

Nuclear Decommissioning Liability

At December 31, 2006 and 2005, SDG&E had asset retirement obligations of $354 million and $339 million, respectively, and related regulatory liabilities of $394 million and $346 million, respectively, related to nuclear decommissioning, in accordance with SFAS 143.

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, and certain hedging activities. The components of other comprehensive income, which consist of all these changes other than net income as shown on the Statements of Consolidated Income, are shown in the Statements of Consolidated Comprehensive Income and Changes in Shareholders' Equity.

The components of Accumulated Other Comprehensive Income (Loss), net of income taxes, at December 31, 2006 and 2005 are as follows:

(Dollars in millions)	2006	2005
Foreign-currency translation loss	$ (276)	$ (264)
Financial instruments, net of $32 and $30 income tax benefit, respectively	(50)	(58)
Unrealized gains on available-for-sale securities, net of $11 income tax	18	--
Unamortized net actuarial loss, net of $57 income tax benefit	(85)	--
Unamortized prior service cost, net of $1 income tax	3	--
Minimum pension liability adjustments, net of $25 income tax benefit	--	(36)
Balance as of December 31	$ (390)	$ (358)

Revenues

Revenues of the Sempra Utilities are primarily derived from deliveries of electricity and natural gas to customers and changes in related regulatory balancing accounts. Revenues from electricity and natural gas sales and services are recorded under the accrual method and recognized upon delivery. The portion of SDG&E's electric commodity that was procured for its customers by the California Department of Water Resources (DWR) and delivered by SDG&E is not included in SDG&E's revenues or costs. Commodity costs associated with long-term contracts allocated to SDG&E from the DWR also are not included in the Statements of Consolidated Income, since the DWR retains legal and financial responsibility for these contracts. Note 13 includes a discussion of the electric industry restructuring. Natural gas storage contract revenues are accrued on a monthly basis and reflect reservation, storage and injection charges in accordance with negotiated agreements, which have terms of up to 15 years. Included in revenues for the Sempra Utilities are revenues of $2.1 billion, $1.8 billion and $1.7 billion for electric and $4.8 billion, $5.3 billion and $4.5 billion for natural gas for 2006, 2005 and 2004, respectively. Operating revenues include amounts for services rendered but unbilled (approximately one-half month's deliveries) at the end of each year. The company presents its operating revenues net of sales taxes.

Additional information concerning utility revenue recognition is discussed above under "Regulatory Matters."

Sempra Commodities generates a substantial portion of its revenues from market making and trading activities as a principal in natural gas, electricity, petroleum, metals and other commodities, for which it quotes bid and ask prices to end users and other market makers. Principal transaction revenues are recognized on a trade-date basis and include realized gains and losses and the net change in the fair value of unrealized gains and losses. Sempra Commodities also earns trading profits as a dealer by structuring and executing transactions. Sempra Commodities utilizes derivative instruments to reduce its exposure to unfavorable changes in market prices which are subject to significant and volatile fluctuation. These instruments include futures, forwards, swaps and options.

Options, which are either exchange-traded or directly negotiated between counterparties, provide the holder with the right to buy from or sell to the other party an agreed amount of a commodity at a specified price within a specified period or at a specified time. As a writer of options, Sempra Commodities generally receives an option premium and manages the risk of an unfavorable change in the value of the underlying commodity by entering into offsetting transactions or by other means.

Forward and future transactions are contracts for delivery of commodities in which the counterparty agrees to make or take delivery at a specified price. Commodity swap transactions may involve the exchange of fixed and floating payment obligations without the exchange of the underlying commodity.

Sempra Commodities’ financial instruments represent contracts with counterparties whereby payments are linked to or derived from market indices or on terms predetermined by the contract.

Non-derivative contracts are accounted for on an accrual basis. Therefore, the related profit or loss will be recognized as the contracts are performed. Derivative instruments are discussed further in Note 10.

Sempra Generation’s revenues are derived primarily from the sale of electric energy to governmental and wholesale power marketing entities and are recognized as the energy is delivered. During 2006, 2005 and 2004, electric energy sales to the DWR accounted for a significant portion of Sempra Generation's revenues.

The consolidated foreign subsidiaries of Sempra Pipelines & Storage, all of which operate in Mexico, recognize revenue as deliveries are made similar to the Sempra Utilities, except that SFAS 71 is not applicable due to the different regulatory environment.

Foreign Currency Translation

The assets and liabilities of the company's foreign operations are translated into U.S. dollars at current exchange rates, 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, as described above. To reflect the fluctuation in the value of the Argentine peso, the functional currency of the company's Argentine operations, Sempra Pipelines & Storage adjusted its investment in its two Argentine natural gas utility holding companies downward by $1 million, $3 million and $1 million in 2006, 2005 and 2004, respectively. A similar adjustment has been made to its investment in Chile to reflect the fluctuation in the value o f the Chilean peso, the functional currency of the company’s Chilean operations, downward by $15 million in 2006, and upward by $32 million in 2005 and $22 million in 2004. These non-cash adjustments did not affect net income, but 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. Additional information concerning these investments is described in Note 3.

Currency transaction gains and losses in a currency other than the entity's functional currency are included in the calculation of consolidated net income. The company recorded $1 million of currency transaction losses in 2006, $1 million of currency transaction gains in 2005 and a negligible amount in 2004.

Transactions with Affiliates

Loans to Unconsolidated Affiliates

In December 2001, Sempra Pipelines & Storage issued two U.S. dollar denominated loans totaling $35 million and $22 million to its affiliates Camuzzi Gas Pampeana S.A. and Camuzzi Gas del Sur S.A., respectively. 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 variable interest rate (12.37 percent at December 31, 2006) and is due in June 2007. The $21 million balance outstanding under the remaining loan is reserved for at December 31, 2006.

Loans from Unconsolidated Affiliates

At both December 31, 2006 and 2005, Sempra Pipelines & Storage had long-term notes payable to unconsolidated affiliates that included $60 million at 6.57 percent due April 1, 2008 and $100 million at

6.73 percent due April 1, 2011. The loans are due to Chilquinta Energía Finance Co. LLC and are secured by Sempra Pipelines & Storage's investments in Chilquinta Energía S.A. and Luz del Sur S.A.A. (Luz del Sur), which are discussed in Note 3.

In February 2000, the company issued $200 million of preferred stock in the form of 8.90 percent Cumulative Quarterly Income Preferred Securities, Series A (QUIPS). The company redeemed the $200 million of mandatorily redeemable trust preferred securities in February 2005.

Revenues and Expenses with Unconsolidated Affiliates

In 2006, 2005 and 2004, Sempra Commodities recorded $29 million, $85 million and $28 million, respectively, of purchases from Topaz Power Partners (Topaz), an unconsolidated affiliate. Sales to Topaz were $95 million, $213 million and $74 million in 2006, 2005 and 2004, respectively. Topaz sold its power plant assets in July 2006, as discussed in Note 3. Additionally, during the first seven months of 2005 and in all of 2004, Sempra Generation recorded $38 million and $60 million, respectively, in sales to El Dorado, then an unconsolidated affiliate, and recorded $43 million and $71 million, respectively, of purchases from El Dorado for those same periods. Sempra Energy purchased the remaining 50% interest in El Dorado in July 2005 and consolidated El Dorado in its financial statements.

Capitalized Interest

The company recorded $65 million, $33 million and $12 million of capitalized interest for 2006, 2005 and 2004, respectively, including the portion of AFUDC related to debt.

Other Income, **Net**

Other Income, Net consists of the following:

	Years ended December 31,		
(Dollars in millions)	2006	2005	2004
Equity in income (losses) of unconsolidated subsidiaries (Note 3)	$ 338	$ 11	$ (26)
Regulatory interest, net	(9)	(6)	3
Allowance for equity funds used during construction	16	14	14
Gain on settlement of Cameron liability	--	--	13
Sundry, net	36	32	28
Total	$ 381	$ 51	$ 32

New Accounting Standards

Pronouncements that have recently become effective that are relevant to the company and/or have had or may have a significant effect on the company's financial statements are described below.

SFAS 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)): Effective January 1, 2006, the company adopted SFAS 123(R), which requires compensation costs related to share-based transactions, including employee stock options, to be recognized in the financial statements based on fair value. SFAS 123(R) revises SFAS 123, *Accounting for Stock-Based Compensation,* and supersedes APBO 25, *Accounting for Stock Issued to Employees* (APBO 25). In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 107 (SAB 107) regarding the SEC's interpretation of SFAS 123(R) and the valuation of share-based payments for public companies. The company has applied the provisions of SAB 107 in its adoption of SFAS 123(R). Further discussion of share-based compensation is provided in Note 9.

SFAS 154, "Accounting Changes and Error Corrections" (SFAS 154): SFAS 154 replaces APBO 20, *Accounting Changes*, and SFAS 3, *Reporting Accounting Changes in Interim Financial Statements*. Unless it is impracticable to do so, SFAS 154 requires retrospective application to prior periods’ financial statements of voluntary changes in accounting principle and of changes required by an accounting pronouncement in instances where the pronouncement does not include specific transition provisions. This statement is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005. No such changes have been made by the company in 2006.

SFAS 155, "Accounting for Certain Hybrid Financial Instruments" (SFAS 155): SFAS 155 is an amendment of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), and SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). SFAS 155 amends SFAS 133 to allow financial instruments that have embedded derivatives to be accounted for as a whole, if the holder elects to account for the whole instrument on a fair value basis, and provides additional guidance on the applicability of SFAS 133 and SFAS 140 to certain financial instruments and subordinated concentrations of credit risk. SFAS 155 is effective for all hybrid financial instruments acquired or issued by the company on or after January 1, 2007.

SFAS 157, "Fair Value Measurements" (SFAS 157): SFAS 157 defines fair value, provides guidance for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. SFAS 157 applies under other standards that require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The company is in the process of evaluating the effect of this statement on its financial position and results of operations.

SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS 158): SFAS 158 amends 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,* and SFAS 132 (revised), *Employers’ Disclosures about Pensions and Other Postretirement Benefits*. SFAS 158 requires an employer to recognize in its statement of financial position an asset for a plan’s overfunded status or a liability for a plan’s underfunded status, measure a plan’s assets and its obligations that determine its funded status as of the end of the company 6;s 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 the company’s comprehensive income and as a separate component of shareholders’ equity. The initial adoption of this statement did not have a significant impact on the company’s consolidated financial condition or results of operations, because the majority of the underfunding is at the Sempra Utilities where the liabilities are offset by regulatory assets. SFAS 158 is effective for the company’s 2006 Annual Report. Additional information on employee benefit plans is provided in Note 8.

The incremental effect of applying SFAS 158 on the Consolidated Balance Sheets at December 31, 2006 for all of the company's employee benefit plans is presented in the following table:

(Dollars in millions)	Prior to application of SFAS 158	SFAS 158 application adjustments	After application of SFAS 158
Regulatory assets arising from pension and other postretirement benefit obligations	$ 232	$ 124	$ 356
Sundry	$ 846	$ (57)	$ 789
Other current liabilities	$ 1,179	$ 18	$ 1,197
Pension and other postretirement benefit obligations, net of plan assets	$ 315	$ 294	$ 609
Deferred income taxes	$ 439	$ (27)	$ 412
Deferred credits and other	$ 1,151	$ (179)	$ 972
Accumulated other comprehensive income (loss)	$ (351)	$ (39)	$ (390)

SFAS 159, "The Fair Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115" (SFAS 159): SFAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses for that item shall be reported in current earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the company elects for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007. The company is in the process of evaluating the application of the fair value option and its effect on its financial position and results of operations.

FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48): FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. 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. This interpretation is effective for fiscal years beginning after December 15, 2006. While the company has not completed its analysis, it does not expect that this statement will have a significant effect on the company's consolidated financial statements.

NOTE 2. RECENT ACQUISITION AND INVESTMENT ACTIVITY

Sempra Generation

In March 2006, Sempra Generation completed the construction of the 550-megawatt (MW) Palomar power plant in Escondido, California, at which time it was transferred to SDG&E.

In July 2005, Sempra Generation purchased Reliant Energy's 50-percent interest in El Dorado Energy for $132 million (including assumed debt), resulting in Sempra Generation's having full ownership of the 480-MW El Dorado power plant located in Boulder City, Nevada.

Additional information regarding investment activity at Sempra Generation is provided in Notes 3 and 4.

Sempra LNG

Early in 2005, Sempra LNG began construction on the Energía Costa Azul liquefied natural gas (LNG) receipt terminal in Baja California, Mexico, and the terminal is expected to begin operations in early 2008. It is expected to cost approximately $900 million and will be capable of processing 1 billion cubic feet (bcf) of natural gas per day. Sempra LNG made expenditures of $266 million, $273 million and $29 million in 2006, 2005 and 2004, respectively, related to the terminal. In addition, $36 million of expenditures were made in 2006 related to the proposed expansion project. The ultimate scope and timing of the expansion project will depend on the outcome of negotiations for binding supply and/or terminal service agreements. As discussed below, Sempra Pipelines & Storage is expanding its Baja California pipelines to connect Energía Costa Azul to existing natural gas pipelines.

In August 2005, Sempra LNG entered into a contract for the construction of its Cameron LNG receipt terminal in Hackberry, Louisiana. The estimated cost of this project is approximately $750 million, and construction is expected to be completed in late 2008. Sempra LNG made expenditures of $273 million, $60 million and $8 million in 2006, 2005 and 2004, respectively, related to the terminal. 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. Expenditures related to the proposed expansion were $6 million in 2006. The ultimate scope and timing of the expansion project will depend on the outcome of negotiations for binding supply and/or terminal service agreements.

In March 2006, Sempra LNG executed a terminal services agreement with Merrill Lynch Commodities Inc. (MLC) to bring natural gas to the U.S. Gulf Coast, conditioned on MLC's obtaining a contract for the supply of LNG. The 15-year, full-service capacity agreement provides MLC the capability to process 500 million cubic feet per day through the Cameron LNG receipt terminal. It had been anticipated that MLC would have a supply of LNG by June 30, 2006, and Sempra LNG and MLC are in the process of negotiating an extension of time for MLC to obtain that supply. Depending on the timing of MLC's finalizing its LNG supply arrangements, Sempra LNG would have the flexibility to fulfill its capacity commitment from either the first phase of Cameron LNG's development or its expansion.

Sempra Pipelines & Storage

Sempra Pipelines & Storage is currently expanding its existing pipelines in Baja California, Mexico, and adding a spur line to connect Sempra LNG's Energía Costa Azul terminal to an existing Sempra Energy natural gas pipeline in Mexico with interconnection to the U.S. border. The estimated cost of this project is $200 million, of which $66 million has been expended through December 31, 2006. The expansion is expected to be completed in early 2008.

In 2004, Sempra Pipelines & Storage acquired the rights to develop Liberty Gas Storage (Liberty), a salt-cavern natural gas storage facility located in Calcasieu Parish, Louisiana. In May 2005, ProLiance Transportation and Storage, LLC (ProLiance) acquired a 25-percent ownership in Liberty from the company. Sempra Pipelines & Storage and ProLiance currently are finalizing construction of the facility. Commercial operations are expected to commence in the second quarter of 2007. The facility will provide 17 bcf of working natural gas capacity for storage and will be connected to the Cameron and Port Arthur Pipelines under development by Sempra Pipelines & Storage to connect area LNG regasification terminals to the interstate gas transmission system. The estimated project cost is approximately $175 million, of which $104 million has been expended to date, primarily in 2006.

In September 2006, Sempra Pipelines & Storage and ProLiance jointly acquired three salt caverns representing 10 bcf to 12 bcf of potential natural gas storage capacity in Cameron Parish, Louisiana. Subject to finalization of development plans and regulatory approval, the property will be developed into a natural gas storage project. Sempra Pipelines & Storage will own 75 percent of the project and be responsible for development and operation of the facility. ProLiance will own a 25-percent interest in the project. Once developed, the newly acquired property and caverns would ultimately become an extension of Liberty. The estimated project cost is approximately $191 million, of which $32 million has been expended through December 31, 2006.

In December 2005, Sempra Pipelines & Storage entered into definitive agreements with Kinder Morgan Energy Partners, L.P. (KMP) to jointly pursue through Rockies Express Pipeline LLC (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.

In June 2006, Sempra Pipelines & Storage and KMP announced that ConocoPhillips (Conoco), an integrated petroleum company based in Houston, Texas, had exercised its option to acquire a 25-percent interest in Rockies Express, 24 percent currently and an additional 1-percent interest to be acquired after pipeline construction is completed. This reduced Sempra Pipelines & Storage's ownership interest in the project to 25 percent from its previous one-third ownership interest. KMP currently owns 51 percent of the equity in the project and will own 50 percent when construction, which has begun, is completed. In connection with financing received by Rockies Express in 2006, Sempra Pipelines & Storage and KMP were repaid their initial capital contributions, which was reported in Distribution from Investment on the company's Statements of Consolidated Cash Flows.

In June 2006, Sempra Energy's management decided to sell Bangor Gas and Frontier Energy, Sempra Pipelines & Storage's domestic natural gas distribution companies. In January 2007, Sempra Pipelines & Storage entered into agreements to sell the companies, subject to regulatory approvals. Additional information is provided in Note 4.

Sempra Commodities

In September 2005, Sempra Commodities sold Bluewater Gas Storage, a natural gas storage facility in Michigan, and Pine Prairie Energy Center, a salt-cavern natural gas storage facility in Evangeline Parish, Louisiana, for $253 million.

NOTE 3. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

Investments are generally accounted for under the equity method when the company has an ownership interest of 20 to 50 percent. In these cases, the company's pro rata shares of the subsidiaries' net assets are included in Investments on the Consolidated Balance Sheets, and are adjusted for the company's share of each investee's earnings or losses, dividends and foreign currency translation effects. Equity in earnings of unconsolidated subsidiaries that is recorded before income tax is reported in Other Income, Net on the Statements of Consolidated Income. Equity earnings recorded net of income tax recorded by the subsidiary are reported in Equity in Earnings (Losses) of Certain Unconsolidated Subsidiaries on the Statements of Consolidated Income. The carrying value of unconsolidated subsidiaries is evaluated for impairment based on the requirements of APBO 18, *The Equity Method of Accounting for Investments in Common Stock* (APBO 18), as amended by SFAS 142. The company accounts for certain investments in housing partnerships made before May 19, 1995 under the cost method, whereby they had been amortized over ten years based on the expected residual value. The company has no unconsolidated subsidiaries where its ability to influence or control an investee differs from its ownership percentage.

The company's long-term investment balances and earnings are summarized as follows:

(Dollars in millions)	Investment at December 31, 2006	2005
Equity method investments:		
Sempra Pipelines & Storage:		
Chilquinta Energía	$ 440	$ 430
Luz del Sur	164	150
Sodigas Pampeana and Sodigas Sur	--	88
Sempra Generation:		
Elk Hills Power	212	218
Topaz Power Partners	--	51
Housing partnerships	78	121
Total	894	1,058
Cost method investments—housing partnerships	18	24
Investments in unconsolidated subsidiaries	912	1,082
Other	174 *	9
Total long-term investments	$ 1,086	$ 1,091

* Other includes Sempra Pipelines & Storage's $128 million investment in bonds as discussed in "Unsecured Long term Debt" in Note 5.

(Dollars in millions)	Earnings for the years ended Dec ember 31, 2006	2005	2004
Equity method investments:			
Earnings recorded before tax included in other income:			
Elk Hills Power	$ 1	$ 3	$ 3
El Dorado Energy	--	(6)	(13)
Topaz Power Partners:			
Earnings from operations	9	28	13
Gain on sale of power plants	344	--	--
Housing partnerships	(17)	(17)	(20)
Sempra Financial synthetic fuels partnerships	--	3	(9)
Rockies Express	1	--	--
Total earnings recorded before tax	$ 338	$ 11	$ (26)
Earnings recorded net of tax:			
Chilquinta Energía	$ 25	$ 25	$ 16
Luz del Sur	24	21	29
Sodigas Pampeana and Sodigas Sur:			
Earnings from operations	6	9	17
Impairment loss, net of tax benefit of $86	(221)	--	--
Other	(16)	--	--
Total earnings recorded net of tax	$ (182)	$ 55	$ 62

For equity method investments, costs in excess of equity in net assets (goodwill) were $248 million and $258 million at December 31, 2006 and 2005, respectively. Amortization thereof ceased in 2002 in accordance with SFAS 142. Costs in excess of the underlying equity in net assets will continue to be reviewed for impairment in accordance with APBO 18, as amended by SFAS 142. Descriptive information concerning each of these investments follows.

Sempra Pipelines & Storage

Sempra Pipelines & Storage and PSEG Global (PSEG), an unaffiliated company, each own a 50-percent interest in Chilquinta Energía S.A., a Chilean electric utility.

On April 1, 2004, Sempra Pipelines & Storage sold a portion of its interest in Luz del Sur, a Peruvian electric utility, for a total of $31 million, reducing its interest to 38 percent. As a result of the sale, Sempra Pipelines & Storage recognized a $5 million after-tax gain in 2004, which is included in Equity in Earnings (Losses) of Certain Unconsolidated Subsidiaries on the Statements of Consolidated Income.

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 had reduced the carrying value of its investment downward by a cumulative total of $202 million as of December 31, 2006. These non-cash 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 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 2003, Sempra Pipelines & Storage filed its legal brief with the International Center for Settlement of Investment Disputes, outlining its claims for $211 million (previously $258 million). Hearings were held in February 2006 and a decision is expected in early 2007. The company pursued a claim under a $48.5 million political-risk insurance policy to recover a portion of the investments' diminution in value. I n May 2006, a tribunal ruled against the company and rejected the claim.

In December 2006, the company decided to sell its investments in these companies. The company adjusted its investment to estimated fair value and recorded a non-cash impairment charge to fourth quarter net income of $221 million. The charge to net income is reported in Equity in Earnings (Losses) of Certain Unconsolidated Subsidiaries on the Statements of Consolidated Income.

The following table shows selected financial data for Sodigas Pampeana and Sodigas Sur:

	Years ended December 31,		
(Dollars in millions)	2006	2005	2004
Gross revenues	$ 215	$ 242	$ 209
Gross profit	$ 97	$ 92	$ 82
Income from operations	$ 17	$ 14	$ 14
Gain on sale of assets	$ 1	$ 1	$ --
Net income	$ 11	$ 22	$ 10

(Dollars in millions)	At December 31, 2006		2005	
Current assets	$	95	$	101
Noncurrent assets	$	325	$	326
Current liabilities	$	166	$	177
Noncurrent liabilities	$	49	$	46

Sempra Generation

The 550-MW Elk Hills Power (Elk Hills) project located near Bakersfield, California began commercial operations in July 2003. Elk Hills is 50-percent owned by Sempra Generation.

The 480-MW El Dorado power plant, located near Las Vegas, Nevada, began commercial operations in May 2000. In July 2005, Sempra Generation, a 50-percent owner at the time, purchased the remaining 50-percent ownership interest in El Dorado for $132 million (including assumed debt) from Reliant Energy Power Generation, who had been the joint venture partner in the El Dorado power plant. As discussed in Note 15, SDG&E has an option to purchase the El Dorado power plant for book value in 2011, subject to certain regulatory approvals.

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 Coleto Creek Power Station (Coleto Creek) and three natural gas and oil-fired plants in Laredo, San Benito and Corpus Christi, Texas. Topaz acquired these assets for $432 million in cash and the assumption of various environmental and asset retirement liabilities.

In July 2006, Sempra Generation and Riverstone Holdings sold Coleto 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 the company, which was reported in Equity in Income of Unconsolidated Subsidiaries. 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 Coleto 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 the company’s interests in Topaz are reported under the equity method, they are not reported as a discontinued operation.

The following table shows selected financial data for Topaz and ignores any reclassifications necessary for discontinued operations reporting by Topaz:

(Dollars in millions)	Years ended December 31, 2006*		2005		2004**	
Gross revenues	$	212	$	511	$	236
Gross profit	$	71	$	167	$	77
Income from operations	$	21	$	42	$	26
Gain on sale of assets	$	705	$	11	$	--
Net income	$	726	$	53	$	26

(Dollars in millions)	At December 31, 2006	2005
Current assets	$ --	$ 128
Noncurrent assets	$ --	$ 497
Current liabilities	$ --	$ 65
Noncurrent liabilities	$ --	$ 457

* As noted above, Topaz sold Coleto Creek in July 2006.

** Topaz acquired its generating plants in July 2004.

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 the company consolidates the investments in the housing partnerships. In the future, the company expects slightly higher income tax rates since the transaction almost completely eliminated the income tax benefits from the company's affordable-housing investments.

The cost of Sempra Financial's investment in synthetic fuels income tax credits has been fully recovered for financial statement purposes as a result of a 2004 sale and contingent payments received during 2005. Additional contingent payments are being recorded as income as they are received.

Sempra Commodities

Available-for-Sale Securities

Sempra Commodities had $55 million and $5 million of available-for-sale securities included in Investments at December 31, 2006 and 2005, respectively. At December 31, 2006, the balance in Accumulated Other Comprehensive Income (Loss) related to these securities was $18 million net of income tax, comprised of $19 million of unrealized gains and $1 million of unrealized losses. At December 31, 2005, the balance in Accumulated Other Comprehensive Income (Loss) included a negligible amount of unrealized gains and losses.

Sempra Commodities recorded $17 million and $6 million in purchases of available-for-sale securities in 2006 and 2005, respectively, and sold $1 million and $4 million of available-for-sale securities in 2006 and 2005, respectively, yielding proceeds of $2 million and $6 million in 2006 and 2005, respectively. The cost basis of the sales was determined by the specific identification method and pretax gains of $1 million and $2 million were realized as a result of the sales in 2006 and 2005, respectively. Sempra Commodities recorded a $1 million pretax impairment loss in 2006 due to the permanent decline in market value of a single available-for-sale security.

The fair value of securities in an unrealized loss position at December 31, 2006 was $6 million. The unrealized losses were primarily caused by temporary declines in the market values of the securities. The company does not consider these investments to be other than temporarily impaired as of December 31, 2006.

Trading Securities

Securities of $13 million and $12 million were classified as trading securities at December 31, 2006 and 2005, respectively. The December 31, 2005 balance in trading securities included $9 million of securities that were reclassified from available-for-sale securities during 2005 due to changes in their status. Upon reclassification, $5 million related to a previously unrealized pretax gain was recognized in earnings.

The December 31, 2006 balance in trading securities included $3 million of securities that were reclassified from available-for-sale securities and $3 million that were reclassified from other investments during 2006 due to changes in their status. In 2006, Sempra Commodities recorded $19 million of pretax gains related to trading securities, including a pretax gain of $17 million resulting from sales, an unrealized pretax gain of $1 million from the aforementioned transfers to trading securities and an unrealized pretax gain of $1 million related to securities held at December 31, 2006.

NOTE 4. 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, Sempra Generation sold its exploration and production subsidiary, Sempra Energy Production Company (SEPCO), for $225 million in cash.

In June 2006, pursuant to Sempra Energy's previously announced plan to focus resources on the development of its core businesses, Sempra Energy's management 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, the company recorded an after-tax impairment loss of $40 million. In January 2007, Sempra Pipelines & Storage entered into agreements to sell the companies subject to regulatory approvals.

In 2004, Sempra Energy's board of directors approved management's plan to dispose of its interest in Atlantic Electric & Gas Limited (AEG), which marketed power and natural gas commodities to commercial and residential customers in the United Kingdom. In April of 2004, AEG went into administrative receivership and substantially all of the assets were sold. This transaction resulted in an after-tax loss of $2 million. In 2005, AEG's loss was primarily attributed to foreign currency translation adjustments associated with its remaining assets and liabilities, legal costs and reserves against accounts receivable. Based on collections in 2006, AEG reported income that primarily relates to reductions in the reserves against accounts receivable.

In accordance with SFAS 144, the above operations have been reported as discontinued for all periods presented in the company's Consolidated Financial Statements.

Information concerning discontinued operations is summarized below:

(Dollars in millions)	Twin Oaks	Energy Services and Facilities Management	Bangor Gas and Frontier Energy	SEPCO	AEG	Consolidated state tax adjustment	Total
December 31, 2006:							
Operating revenues	$ 22	$ 35	$ 12	$ 20	$ --	$ --	$ 89
Income from operations, before income taxes	$ 1	$ 7	$ --	$ 8	$ 4	$ --	$ 20
Impairment loss	--	--	(68)	--	--	--	(68)
Income tax expense (benefit)	--	3	(26)	3	--	--	(20)
Consolidated state tax adjustment	--	--	--	--	--	1	1
	1	4	(42)	5	4	1	(27)
Gain on disposal, before income taxes	349	--	--	176	--	--	525
Income tax expense (benefit)	122	(21)	--	73	--	--	174
Consolidated state tax adjustment	--	--	--	--	--	(9)	(9)
	227	21	--	103	--	(9)	342
	$ 228	$ 25	$ (42)	$ 108	$ 4	$ (8)	$ 315
December 31, 2005:							
Operating revenues	$ 79	$ 110	$ 12	$ 24	$ --	$ --	$ 225
Income from operations, before				< /TD>			
income taxes	$ 12	$ 5	$ --	$ 8	$ --	$ --	$ 25
Income tax expense	4	2	--	3	--	--	9
	8	3	--	5	--	--	16
Loss on disposal (no income tax benefit)	--	--	--	--	(9)	--	(9)
	$ 8	$ 3	$ --	$ 5	$ (9)	$ --	$ 7
December 31, 2004:							
Operating revenues	$ 74	$ 100	$ 9	$ 16	$ 201	$ --	$ 400
Income (loss) from operations, before				< /TD>			
income taxes	$ 8	$ (9)	$ 1	$ 10	$ (30)	$ --	$ (20)
Income tax expense (benefit)	3	(3)	1	4	(7)	--	(2)
	5	(6)	--	6	(23)	--	(18)
Loss on disposal, before income tax benefit	--	--	--	--	(6)	--	(6)
Income tax benefit	--	--	--	--	(4)	--	(4)
	--	--	--	--	(2)	--	(2)
	$ 5	$ (6)	$ --	$ 6	$ (25)	$ --	$ (20)

Balance sheet data are summarized below:

(Dollars in millions)	December 31, 2006	December 31, 2005
Current assets of discontinued operations:		
Twin Oaks	$ --	$ 242
Energy Services and Facilities Management	--	163
Bangor Gas and Frontier Energy	60	100
SEPCO	--	56
AEG	2	50
	$ 62	$ 611
Current liabilities of discontinued operations:		
Twin Oaks	$ --	$ 44
Energy Services and Facilities Management	--	78
Bangor Gas and Frontier Energy	7	5
SEPCO	--	14
AEG	--	10
	$ 7	$ 151

NOTE 5. DEBT AND CREDIT FACILITIES

Committed Lines of Credit

At December 31, 2006, the company had available $6.2 billion in unused, committed lines of credit to provide liquidity and support commercial paper (the major components of which are detailed below). As of December 31, 2006, $10 million of the lines supported variable-rate debt.

Sempra Global has a $2.5 billion five-year syndicated revolving credit facility expiring in 2010 and a $750 million three-year syndicated revolving credit facility expiring in 2008. The five-year and three-year credit facilities also provide for the issuance of up to $400 million and $500 million, respectively, of letters of credit on behalf of Sempra Global. The amount of borrowings otherwise available under each facility would be reduced by the amount of outstanding letters of credit. Obligations under each facility are guaranteed by Sempra Energy and bear interest at rates varying with market rates and Sempra Energy's credit rating. Each facility requires Sempra Energy to maintain, at the end of each quarter, a ratio of total indebtedness to total capitalization (as defined in the facility) of no more than 65 percent. At December 31, 2006, Sempra Global had letters of credit of $45 million outstanding under the five-year facility.

Sempra Commodities has a five-year syndicated revolving credit facility expiring in 2010 that provides for up to $1.72 billion of extensions of credit (consisting of borrowings, letters of credit and other credit support accommodations) to Sempra Commodities and certain of its affiliates. 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 Sempra Commodities 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 percent of the lenders' total commitments under the facility. The facility requires Sempra Commodities to meet certain financial tests at the end of each quarter, including current ratio, leverage ratio, senior debt to tangible net worth ratio, and minim um net worth and tangible net worth tests. It also requires Sempra Energy to maintain, at the end of each quarter a ratio of total indebtedness to total capitalization (as defined in the facility) of no more than 65 percent. It also imposes certain other limitations on Sempra Commodities, including 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. At December 31, 2006, Sempra Commodities had no outstanding borrowings under this facility. At December 31, 2006, letters of credit of $393 million were outstanding under the facility.

In May 2006, Sempra Commodities entered into a $500 million three-year revolving credit facility expiring in 2009 that provides for extensions of credit (consisting of revolving credit borrowings and the issuance of letters of credit and bank guarantees) to Sempra Commodities. Extensions of credit under the facility are guaranteed by Sempra Energy and bear interest at rates varying with market rates plus a fixed credit spread. The facility requires Sempra Energy to maintain, at the end of each quarter, a ratio of total indebtedness to total capitalization (as defined in the facility) of no more than 65 percent. Sempra Commodities had $80 million of outstanding borrowings and $410 million of outstanding letters of credit under this facility at December 31, 2006.

Sempra LNG has a $1.25 billion five-year syndicated revolving credit facility that expires in 2009. The facility also provides for the issuance of letters of credit not exceeding $200 million outstanding at any one time. Borrowings, letter of credit obligations and other obligations under the facility are guaranteed by Sempra Energy and bear interest at rates varying with market rates and Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain, at the end of each quarter, a ratio of total indebtedness to total capitalization (as defined in the facility) of no more than 65 percent. Sempra LNG had no outstanding borrowings and $85 million of outstanding letters of credit under this facility at December 31, 2006.

The Sempra Utilities have a combined $600 million five-year syndicated revolving credit facility expiring in 2010, under which each utility individually may borrow up to $500 million, subject to a combined borrowing limit for both utilities of $600 million. Borrowings under the agreement bear interest at rates varying with market rates and the borrowing utility's credit rating. The agreement requires each utility to maintain, at the end of each quarter, a ratio of total indebtedness to total capitalization (as defined in the facility) of no more than 65 percent. Borrowings under the agreement are individual obligations of the borrowing utility and a default by one utility would not constitute a default or preclude borrowings by the other. At December 31, 2006, the Sempra Utilities had no amounts outstanding under this facility. The facility provides support for $72 million of commercial paper outstanding at SDG&E at Dece mber 31, 2006.

As discussed in Note 2, Sempra Energy, Conoco and KMP currently hold 25 percent, 24 percent and 51 percent ownership interests, respectively, in Rockies Express. Rockies Express has entered into a $2 billion five-year credit facility expiring in 2011 that provides for revolving extensions of credit that are guaranteed severally 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, consisting in the case of Sempra Energy primarily of a requirement that it 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 quart er. Rockies Express had a total of $790 million of outstanding borrowings under this facility at December 31, 2006, of which $198 million is guaranteed by Sempra Energy. The fair value of this guarantee is negligible.

Uncommitted Lines of Credit

Under uncommitted facilities, lenders provide credit on a discretionary basis. Terms are generally consistent with existing credit facilities. At December 31, 2006, Sempra Commodities had $1.33 billion in various uncommitted lines of credit. Of the $1.33 billion at December 31, 2006, $777 million of the lines is fully guaranteed by Sempra Energy, and bears interest at rates varying with market rates. The remaining $550 million line is secured by certain assets at Sempra Commodities and guaranteed by Sempra Energy up to 20 percent of the amount of borrowings or credit lines utilized, subject to additional amounts based on the recoverability of Sempra Commodities' collateral. At December 31, 2006, Sempra Commodities had $228 million of letters of credit and $75 million of short-term borrowings outstanding against these lines.

Other Short-term Debt

In addition to its lines of credit and commercial paper, Sempra Commodities had $25 million and $82 million of other short-term debt outstanding at December 31, 2006 and 2005, respectively.

Weighted Average Interest Rates

The company's weighted average interest rates on the total short-term debt outstanding were 5.76 percent and 4.54 percent at December 31, 2006 and 2005, respectively.

Long-term Debt

(Dollars in millions)	December 31, 2006	December 31, 2005
First mortgage bonds:		
Variable rate (5.54% at December 31, 2006) December 1, 2009	$ 100	$ 100
4.375% January 15, 2011	100	100
Variable rates after fixed-to-floating rate swaps (5.18% at December 31, 2006)		
January 15, 2011	150	150
4.8% October 1, 2012	250	250
6.8% June 1, 2015	14	14
5.3% November 15, 2015	250	250
5.45% April 15, 2018	250	250
Variable rate (3.30% at December 31, 2006) July 2018	161	--
5.85% June 1, 2021	60	60
6.0% June 1, 2026	250	--
5% to 5.25% December 1, 2027	150	150
2.832% to 2.972%* January and February 2034	176	176
5.35% May 15, 2035	250	250
5.75% November 15, 2035	250	250
3.06%* May 1, 2039	75	75
5.9% June 1, 2018	--	68
5.9% September 1, 2018	--	93
	2,486	2,236
Other long-term debt (unsecured unless otherwise noted):		
4.621% Notes May 17, 2007	600	600
6.0% Notes February 1, 2013	400	400
Notes at variable rates after fixed-to-floating swap (8.3% at December 31, 2006)		
March 1, 2010	300	300
Notes at variable rates (5.85% at December 31, 2006) May 21, 2008	300	300
4.75% Notes May 15, 2009	300	300
7.95% Notes March 1, 2010	200	200
5.9% June 1, 2014	130	130
Debt payable at 6.3% December 31, 2021	128	--
Employee Stock Ownership Plan		
Bonds at 4.213% November 1, 2014	82	82
Bonds at variable rates (5.9% at December 31, 2006) November 1, 2014	10	22
6.37% Rate-reduction bonds, payable through 2007	66	132
5.5% December 1, 2021	60	60
5.3% July 1, 2021	39	39
Notes at 3.92% to 5.05% payable 2010 through 2011	32	--
Debt incurred to acquire limited partnerships, secured by real estate, at 7.52% to		
9.35% annually through 2009	24	48
4.9% March 1, 2023	25	25
4.75% May 14, 2016	8	8
5.67% January 18, 2028	5	5
Other debt	21	33
Market value adjustments for interest rate swaps, net (expiring 2010-2011)	(4)	(1)
	5,212	4,919
Current portion of long-term debt	(681)	(98)
Unamortized discount on long-term debt	(6)	(6)
Total	$ 4,525	$ 4,815

* After floating-to-fixed rate swaps expiring in 2009.

Excluding market value adjustments for interest-rate swaps, maturities of long-term debt are:

(Dollars in millions)	
2007	$ 681
2008	307
2009	423
2010	513
2011	269
Thereafter	3,023
Total	$ 5,216

Callable Bonds

At the company's option, certain bonds are callable subject to premiums at various dates: $881 million in 2007 and $282 million after 2011. In addition, $3 billion of bonds are callable subject to make-whole provisions.

First Mortgage Bonds

First mortgage bonds are issued by the Sempra Utilities and secured by a lien on utility plant. The Sempra Utilities may issue additional first mortgage bonds upon compliance with the provisions of their bond indentures, which 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 $3.1 billion of first mortgage bonds at December 31, 2006.

In June 2006, SDG&E publicly offered and sold $250 million of 6 percent first mortgage bonds, maturing in 2026.

In September 2006, SDG&E issued $161 million of variable-rate first mortgage bonds, maturing in 2018. The bonds secure the repayment of tax-exempt industrial development bonds of an identical amount, maturity and interest rate issued by the City of Chula Vista, the proceeds of which have been loaned to SDG&E and will be repaid with payments on the first mortgage bonds. The proceeds from the issuance of the first mortgage bonds were used to retire an identical amount of 5.9 percent first mortgage bonds and related tax-exempt industrial development bonds of a similar weighted-average maturity.

Equity Units

In 2002, the company issued $600 million of Equity Units. The units included $600 million of the company's 5.60 percent senior notes due May 17, 2007. In February 2005, the company remarketed the senior notes for their remaining term at a rate of 4.621 percent. In March and May 2005, 19.7 million shares of common stock were issued in connection with the settlement of the related common stock purchase contract as discussed in Note 12.

Unsecured Long-term Debt

Various long-term obligations totaling $2.6 billion at December 31, 2006 are unsecured.

In 2006, Sempra Pipelines & Storage, in order to reduce its property tax, incurred $128 million of long-term debt related to its joint development with ProLiance of its Liberty facility in Calcasieu Parish, Louisiana. The debt is payable to the Calcasieu Parish Industrial Development Board. Related to the debt, the company 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.

Rate-Reduction Bonds

In December 1997, $658 million of rate-reduction bonds were issued on behalf of SDG&E at an average interest rate of 6.26 percent. These bonds were issued to facilitate the 10 percent rate reduction mandated by California's electric-restructuring law, which is described in Note 13. They are being repaid over ten years by SDG&E's residential and small-commercial customers through a specified charge on their electricity bills. These bonds are secured by the revenue streams collected from customers and are not secured by, or payable from, utility property.

Debt of Employee Stock Ownership Plan (ESOP) and Trust (Trust)

The Trust covers substantially all of the employees of the parent organization, SoCalGas and most of Sempra Global's subsidiaries. The Trust is used to fund part of the retirement savings plan described in Note 8. The notes are payable by the Trust and mature in 2014. Of these notes, $81.5 million were repriced at an interest rate of 4.213 percent for a three-year term ending July 1, 2007. The balances of the notes are repriced weekly and subject to repurchase by the company at the holder’s option. ESOP debt was paid down by $34 million during the last three years when 697,677 shares of company common stock were released from the Trust in order to fund the employer contribution to the company savings plan. Interest on the ESOP debt amounted to $4 million in 2006, $4 million in 2005 and $5 million in 2004. Dividends used for debt service amounted to $2 million in each of 2006, 2005 and 2004.

Interest-Rate Swaps

The company periodically enters into interest-rate swap agreements to moderate its exposure to interest-rate changes and to lower its overall cost of borrowing.

Fair value hedges

During 2004, to balance its mix of fixed and floating-rate debt, Sempra Energy entered into interest-rate swaps that effectively exchanged the fixed rate on $300 million of its $500 million 7.95 percent notes maturing in 2010 for a floating rate. The swaps expire in 2010. During 2003, SoCalGas entered into an interest-rate swap that effectively exchanged the fixed rate on $150 million of its $250 million 4.375 percent first mortgage bonds maturing in 2011 for a floating rate. The swap expires in 2011. At December 31, 2006, market value adjustments of $3 million were recorded as an increase primarily in Fixed-price Contracts and Other Derivatives (in noncurrent liabilities) and an offsetting decrease in Long-term Debt without affecting net income or other comprehensive income. At December 31, 2005, market value adjustments of $14 million were recorded as a decrease primarily in Fixed-price Contracts and Other Derivatives (in noncurrent assets as Sundry) and a corresponding decrease in Long-term Debt without affecting net income or other comprehensive income. There has been no hedge ineffectiveness on these swaps.

Cash flow hedges

In the third quarter of 2005, Sempra Energy Mexico 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. The fair values of these swaps at December

31, 2006 and 2005, were $12 million and $6 million, respectively. In September 2004, SDG&E entered into interest-rate swaps to exchange the floating rates on its $251 million Chula Vista Series 2004 bonds maturing from 2034 through 2039 for fixed rates. The swaps expire in 2009. The fair values of these swaps at December 31, 2006 and 2005, were $3 million and $4 million, respectively. In 2006 and 2005, pretax income (loss) arising from the ineffective portion of interest-rate cash flow hedges was $(1) million and $4 million, respectively, and was recorded in Other Income, Net on the Statements of Consolidated Income. The effect of interest-rate cash flow hedges on other comprehensive income for the years ended December 31, 2006 and 2005 were gains of $5 million and $4 million, respectively. The balances in Accumulated Other Comprehensive Income (Loss) at December 31, 2006 and 2005, related to interest-rate ca sh flow hedges were a gain of $9 million and $4 million, respectively.

NOTE 6. FACILITIES UNDER JOINT OWNERSHIP

San Onofre Nuclear Generating Station (SONGS) and the Southwest Powerlink transmission line are owned jointly with other utilities. The company's interests at December 31, 2006 were as follows:

(Dollars in millions)	SONGS	Southwest Powerlink
Percentage ownership	20 %	98 %
Utility plant in service	$ 64	$ 310
Accumulated depreciation and amortization	$ 8	$ 162
Construction work in progress	$ 38	$ --

The company, and each of the other owners, holds its interest as an undivided interest as tenants 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.

The company's share of operating expenses is included in the 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.

The asset retirement obligation related to decommissioning costs for the SONGS units was $354 million at December 31, 2006. That amount includes the cost to decommission Units 2 and 3, and the remaining cost to complete Unit 1’s decommissioning, which is currently in progress. Decommissioning cost studies are updated every three years, with the most recent update approved by the CPUC in January 2007. 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, when the Units 2 and 3 NRC operating licenses will terminate and the decommissioning of Units 2 and 3 is expected to begin. At that time, sufficient funds are expected to have been collected to fully decommission SONGS.

Unit 1 was permanently shut down in 1992, and physical decommissioning began in January 2000. Several 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. These activities are expected to be completed in 2008. The ISFSI will be decommissioned after a permanent storage facility becomes available and the spent fuel is removed from the site by the U.S. Department of Energy. The Unit 1 reactor vessel is expected to remain on site until Units 2 and 3 are decommissioned.

The amounts collected in rates are invested in externally managed trust funds. Amounts held by the trusts are invested in accordance with CPUC regulations that establish maximum amounts for investments in equity securities (50 percent of a qualified trust and 60 percent of a nonqualified trust), international equity securities (20 percent) and securities of electric utilities having ownership interests in nuclear power plants (10 percent). Not less than 50 percent of the equity portion of the trusts must be invested passively. The securities held by the trust are considered available for sale. These trusts are shown on the Consolidated Balance Sheets at market value with the offsetting credits recorded in Asset Retirement Obligations and Regulatory Liabilities Arising from Removal Obligations.

The following tables show the fair values and gross unrealized gains and losses for the securities held in the trust funds.

	As of December 31, 2006			
(Dollars in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities				
U.S. government issues*	$ 215	$ 10	$ (1)	$ 224
Municipal bonds**	55	1	--	56
Total debt securities	270	11	(1)	280
Equity securities	142	217	(1)	358
Cash and other securities***	61	3	--	64
Total available-for-sale securities	$ 473	$ 231	$ (2)	$ 702

* Maturity dates are 2007-2030.
** Maturity dates are 2007-2037.
*** Maturity dates are 2007-2036.

	As of December 31, 2005			
(Dollars in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities				
U.S. government issues	$ 206	$ 16	$ --	$ 222
Municipal bonds	53	2	(1)	54
Total debt securities	259	18	(1)	276
Equity securities	152	176	(1)	327
Cash and other securities	34	1	--	35
Total available-for-sale securities	$ 445	$ 195	$ (2)	$ 638

The following table shows the proceeds from sales of securities in the trust and gross realized gains and losses on those sales.

	Years Ended December 31,		
(Dollars in millions)	2006	2005	2004
Proceeds from sales	$ 474	$ 223	$ 237
Gross realized gains	$ 22	$ 17	$ 19
Gross realized losses	$ (13)	$ (11)	$ (7)

Net unrealized gains are included in Asset Retirement Obligations and Regulatory Liabilities Arising from Removal Obligations on the Consolidated Balance Sheets. The company determines the cost of securities in the trust on the basis of specific identification.

The fair value of securities in an unrealized loss position as of December 31, 2006 was $92 million. The unrealized losses were primarily caused by interest rate movements and fluctuations in the market. The company does not consider these investments to be other than temporarily impaired as of December 31, 2006.

Customer contribution amounts are determined by estimates of after-tax investment returns, decommissioning costs and decommissioning cost escalation rates. Lower actual investment returns or higher actual decommissioning costs result in an increase in future customer contributions.

Discussion regarding the impact of SFAS 143 is provided in Note 1. Additional information regarding SONGS is included in Notes 13 and 15.

NOTE 7. INCOME TAXES

Reconciliations of the U.S. statutory federal income tax rate to the effective income tax rate are as follows:

	Years ended December 31,		
	2006	2005	2004
Statutory federal income tax rate	35 %	35 %	35 %
Utility depreciation	2	5	4
State income taxes, net of federal income tax benefit	4	3	4
Tax credits	(4)	(14)	(14)
Foreign income taxes	(1)	(3)	(3)
Resolution of Internal Revenue Service audits	(1)	(8)	--
Reduction of prior period state income tax accruals, net of federal income tax effect	(1)	(6)	(3)
Reduction of interest rate on prior period federal income tax liabilities, net of tax	--	--	(2)
Utility repair allowance	(1)	(3)	--
Adjustment to prior year estimated tax accruals	(1)	(2)	(1)
Other, net	1	(3)	(2)
Effective income tax rate	33 %	4 %	18 %

The geographic components of Income from Continuing Operations Before Income Taxes and Equity in Earnings (Losses) of Certain Unconsolidated Subsidiaries are as follows:

	Years ended December 31,		
(Dollars in millions)	2006	2005	2004
Domestic	$ 1,682	$ 724	$ 788
Foreign	232	168	255
Total	$ 1,914	$ 892	$ 1,043

The components of income tax expense are as follows:

	Years ended December 31,		
(Dollars in millions)	2006	2005	2004
Current:			
Federal	$ 416	$ 312	$ 123
State	96	11	21
Foreign	52	9	39
Total	564	332	183
Deferred:			
Federal	90	(208)	10
State	(36)	(78)	(23)
Foreign	28	(6)	26
Total	82	(292)	13
Deferred investment tax credits	(5)	(6)	(6)
Total income tax expense	$ 641	$ 34	$ 190

Accumulated deferred income taxes at December 31 relate to the following:

(Dollars in millions)	2006	2005
Deferred tax liabilities:		
Differences in financial and tax bases of depreciable and amortizable assets	$ 831	$ 935
Regulatory balancing accounts	269	254
Unrealized revenue	63	39
Loss on reacquired debt	26	29
Property taxes	27	23
Other	17	8
Total deferred tax liabilities	1,233	1,288
Deferred tax assets:		
General business tax credit carryforward	--	236
Credits from alternative minimum tax	101	143
Investment tax credits	46	50
Equity (income) loss	48	(48)
Net operating losses of separate state and foreign entities	95	84
Compensation-related items	165	171
Postretirement benefits	198	133
Other deferred liabilities	63	42
State income taxes	54	39
Bad debt allowance	18	8
Litigation and other accruals not yet deductible	327	346
Other	--	17
Total deferred tax assets	1,115	1,221
Net deferred income tax liability before valuation allowance	118	67
Valuation allowance	24	13
Net deferred income tax liability	$ 142	$ 80

The net deferred income tax liability is recorded on the Consolidated Balance Sheets at December 31 as follows:

(Dollars in millions)	2006	2005
Current asset	$ (270)	$ (134)
Noncurrent liability	412	214
Total	$ 142	$ 80

At December 31, 2006, the company had $101 million of alternative minimum tax credits with no expiration date. All of these credits have been included in the calculation of income tax expense in the year they arose.

At December 31, 2006, foreign subsidiaries had $286 million in unused net operating losses available to reduce future income taxes, primarily in Mexico, Canada and the United Kingdom. Significant amounts of these losses become unavailable to reduce future incomes taxes beginning in 2009. Financial statement benefits were recorded on all but $38 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 $38 million because they were incurred in jurisdictions where utilization is sufficiently in doubt.

At December 31, 2006, the company had not provided for U.S. income taxes on $716 million of foreign subsidiaries' undistributed earnings, since they are expected to be reinvested indefinitely outside the U.S. It is not possible to predict the amount of U.S. income taxes that might be payable if these earnings were eventually repatriated.

The company believes it has adequately provided for income tax issues not yet resolved with federal, state and foreign tax authorities. At December 31, 2006, $27 million was accrued for such matters. Although not probable, the most adverse resolution of these issues could result in additional charges to earnings in future periods. Based upon a consideration of all relevant facts and circumstances, the company does not believe the ultimate resolution of tax issues for all open tax periods will have a materially adverse effect upon its results of operations or financial condition.

Synthetic Fuels Income Tax Credits

In 2004, Sempra Financial sold its investment in an enterprise that earns synthetic fuels income tax credits. That investment comprised one-third of Sempra Energy's synthetic fuels tax credits participation and was sold because the company's alternative minimum tax position defers utilization of the tax credits in the determination of income taxes currently payable. The transaction was accounted for under the cost-recovery method, whereby subsequent proceeds in excess of the carrying value of the investment are recorded as income as received. As a result of this sale, Sempra Financial will not receive synthetic fuels tax credits. Sempra Commodities continues its operations related to synthetic fuels tax credits.

The Internal Revenue Service (IRS) has conducted various examinations of the partnerships associated with the synthetic fuels tax credits, covering various years as recent as 2000, depending on the partnership. It has reported no change in the credits. From acquisition of the facilities in 1998, the company has generated synthetic fuels tax credits of $493 million through December 31, 2006, of which $59 million were recorded in 2006.

If the annual average wellhead price per barrel of oil for 2007 is $55.82 or more, a partial or complete phase-out of synthetic fuels tax credits will occur. After 2007, the company will no longer earn synthetic fuels tax credits.

Pacific Enterprises' Quasi-Reorganization

Effective December 31, 1992, PE effected a quasi-reorganization for financial reporting purposes. The reorganization resulted in a restatement of the company's assets and liabilities to their estimated fair value at December 31, 1992 and the elimination of PE's retained earnings deficit. Since the reorganization was for financial purposes and not a taxable transaction, the company established deferred taxes relative to the book and tax bases differences.

During 2004, the company completed an extensive analysis of PE's deferred tax accounts. The analysis resulted in a $72 million reduction of the deferred tax liabilities and an offsetting credit to equity. The credit was recorded to equity because the balances related to tax effects of transactions prior to the quasi-reorganization. In 2004, the company also concluded its outstanding IRS examinations and appeals related to PE and its subsidiaries. As of December 31, 2006, the company's Consolidated Balance Sheets include a net deferred tax asset of $10 million related to remaining reserves arising from the quasi-reorganization.

NOTE 8. EMPLOYEE BENEFIT PLANS

The information presented below covers the employee benefit plans of the company and its principal subsidiaries.

The company has funded and unfunded noncontributory defined benefit plans that together cover substantially all of its employees. The plans provide defined benefits based on years of service and either final average or career salary.

The company also has other postretirement benefit plans covering substantially all of its employees. The life insurance plans are both contributory and noncontributory, and the health care plans are contributory, with participants' contributions 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, rates of compensation increase, health care cost trend rates, mortality rates, and other factors. These assumptions are reviewed on an annual basis prior to the beginning of each year and updated when appropriate. The company considers current market conditions, including interest rates, in making these assumptions. The company uses a December 31 measurement date for all of its plans.

In support of its Supplemental Executive Retirement Plan, the company maintains dedicated assets, including investments in life insurance contracts, which totaled $341 million at December 31, 2006.

In the third quarter of 2006, the Pension Protection Act of 2006 was enacted. This Act increases the funding requirements for qualified pension plans beginning in 2008. It also changes certain costs of providing pension benefits, including the interest rate for benefits paid as lump sums and the level of benefits that may be provided through qualified pension plans. The $73 million decrease in the company’s pension obligation due to the plan changes required by this legislation has been recognized in the benefit obligation and in the unrecognized prior service cost at the end of 2006. The unrecognized prior service cost will be amortized to net periodic benefit cost over approximately 13 to 18 years.

Effective March 1, 2007, the pension plans for all employees of Sempra Energy, except the non-represented employees of SoCalGas, will be amended to change the calculation of the benefit for certain participants. The affected participants are those that had an accrued benefit under the SoCalGas or SDG&E pension plans at the date the plans transitioned from a traditional defined benefit plan to a cash balance plan. The transition dates for SoCalGas represented and SDG&E non-represented participants was July 1, 1998, and for SDG&E represented participants it was November 1, 1998. Currently, these participants receive the greater of their accrued benefit in the cash balance plan or the present value of their benefit under the prior plan as of June 30, 2003. After the amendment date, they will receive the greater of the accrued benefit under the cash balance plan, or the present value of their accrued benefit under the prior plan at June 30, 2003 plus the cash balance benefit accrued after that date. This amendment resulted in a $56 million increase in the company's benefit obligation and in the unrecognized prior service cost at the end of 2006.

Effective January 1, 2006, the pension plans for all employees of Sempra Energy, except the non-represented employees of SoCalGas, were amended to include deferred compensation, beginning January 1, 2006, in pension-eligible earnings. Also effective January 1, 2006, SoCalGas' pension plan for non-represented employees was amended to change the early retirement requirements. The service requirement necessary to qualify for early retirement was changed from 15 years to 10 years for participants currently in or grandfathered to that plan, which had an accrued benefit in SoCalGas' prior pension plan as of June 30, 2003. These two changes resulted in a net $1 million increase in the company's benefit obligation and in the unrecognized prior service cost at the end of 2006.

Effective January 1, 2006, the other postretirement benefit plans for represented and non-represented employees at SDG&E and non-represented employees at SoCalGas were amended to integrate the benefits plan design across the Sempra Utilities, resulting in a net $6 million decrease in the benefit obligation as of December 31, 2005.

SoCalGas' pension plan was amended effective January 1, 2005, to increase the pension formula for service credit in excess of 30 years resulting in an increase in the pension benefit obligation of $3 million.

As discussed in Note 1 under "New Accounting Standards," SFAS 158 is effective for the company's 2006 Annual Report. The company has adopted SFAS 158 on a prospective basis as of December 31, 2006. The effects of the amendments referred to in the four previous paragraphs were recognized in the company's benefit obligation as of December 31, 2006, in accordance with that standard.

The following table provides a reconciliation of the changes in the plans' projected benefit obligations during the latest two years and the fair value of assets, and a statement of the funded status as of the latest two year ends:

	Pension Benefits		Other Postretirement Benefits	
(Dollars in millions)	2006	2005	2006	2005
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	$ 2,843	$ 2,694	$ 869	$ 922
Service cost	73	62	24	24
Interest cost	158	153	45	48
Plan amendments	(16)	3	--	(6)
Actuarial loss (gain)	25	117	59	(74)
Curtailments	(1)	--	(4)	--
Benefit payments	(197)	(186)	(43)	(46)
Federal subsidy (Medicare Part D)	--	--	2	--
Other	--	--	--	1
Net obligation at December 31	2,885	2,843	952	869
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	2,364	2,340	623	585
Actual return on plan assets	333	186	82	39
Employer contributions	35	24	32	45
Benefit payments	(197)	(186)	(43)	(46)
Fair value of plan assets at December 31	2,535	2,364	694	623
Funded status at December 31	(350)	(479)	(258)	(246)
Unrecognized net actuarial loss	--	344	--	141
Unrecognized prior service cost (credit)	--	68	--	(17)
Net recorded liability at December 31	$ (350)	$ (67)	$ (258)	$ (122)

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. The company uses the asset "smoothing" method for nearly 80 percent of the assets held for its pension and other postretirement plans and 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. 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 liability is included in the following captions on the Consolidated Balance Sheets as follows:

	Pension Benefits		Other Postretirement Benefits	
(Dollars in millions)	2006	2005	2006	2005
Prepaid benefit cost	$ --	$ 80	$ --	$ --
Noncurrent assets	19	--	--	--
Current liabilities	(18)	--	--	--
Noncurrent liabilities	(351)	(313)	(258)	(121)
Intangible asset	--	5	--	--
Regulatory asset	--	99	--	--
Accumulated other comprehensive income (loss) - pretax	--	62	--	--
Net recorded liability	$ (350)	$ (67)	$ (258)	$ (121)

Amounts recorded in Accumulated Other Comprehensive Income (Loss) in connection with the initial adoption of SFAS 158 as of December 31, 2006, net of tax effects and amounts recorded as regulatory assets, are as follows:

(Dollars in millions)	Pension Benefits	Other Postretirement Benefits
Net actuarial loss	$ 82	$ 3
Prior service (credit)	(1)	(2)
Total	$ 81	$ 1

The accumulated benefit obligations for defined benefit pension plans were $2.7 billion and $2.6 billion at December 31, 2006 and 2005, respectively. The following table provides information concerning pension plans with benefit obligations in excess of plan assets as of December 31.

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
(Dollars in millions)	2006	2005	2006	2005
Projected benefit obligation	$ 812	$ 2,490	$ 812	$ 757
Accumulated benefit obligation	$ 809	$ 2,258	$ 809	$ 752
Fair value of plan assets	$ 679	$ 2,189	$ 679	$ 616

The following table provides the components of net periodic benefit cost (income) for the years ended December 31:

(Dollars in millions)	Pension Benefits 2006	Pension Benefits 2005	Pension Benefits 2004	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005	Other Postretirement Benefits 2004
Service cost	$ 73	$ 62	$ 49	$ 24	$ 24	$ 21
Interest cost	158	153	154	45	48	51
Expected return on assets	(149)	(153)	(154)	(40)	(39)	(36)
Amortization of:						
Prior service cost	10	10	9	(3)	(2)	(1)
Actuarial loss	18	17	12	3	7	10
Regulatory adjustment	(38)	(36)	(116)	4	9	2
Transfer of retirees	--	30	--	--	(10)	--
Total net periodic benefit cost (income)	$ 72	$ 83	$ (46)	$ 33	$ 37	$ 47

The estimated net loss and prior service cost for the pension plans that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in 2007 are each $8 million. The estimated net loss and prior service credit for the other postretirement plans that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in 2007 are $7 million and $3 million, respectively.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was enacted in December of 2003. The Act 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. The company and its actuarial advisors determined that benefits provided to certain participants actuarially will be at least equivalent to Medicare Part D, and, accordingly, the company is entitled to a tax-exempt subsidy that reduces the company's accumulated postretirement benefit obligation under the plan at January 1, 2006 by $106 million and reduced the net periodic cost for 2006 by $13 million.

The significant assumptions related to the company's pension and other postretirement benefit plans are as follows:

	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATION AS OF DECEMBER 31:				
Discount rate	5.75%	5.50%	5.85%	5.60%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COSTS FOR YEARS ENDED DECEMBER 31:				
Discount rate	5.50%	5.66%	5.60%	5.66%
Expected return on plan assets	7.00%	7.50%	6.85%	6.83%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

The company develops 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. It then calculates a single equivalent discount rate which 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, including pension consultants and investment advisors.

	2006	2005
ASSUMED HEALTH CARE COST		
TREND RATES AT DECEMBER 31:		
Health-care cost trend rate *	9.52 %	9.78 %
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	2009	2008

* This is the weighted average of the increases for the company's health plans. The rate for these plans ranged from 8.50% to 10% in 2005 and 2006.

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plan costs. A one-percent change in assumed health-care cost trend rates would have the following effects:

(Dollars in millions)	1% Increase	1% Decrease
Effect on total of service and interest cost components of net		
periodic postretirement health-care benefit cost	$ 10	$ (8)
Effect on the health-care component of the accumulated other		
postretirement benefit obligation	$ 107	$ (88)

Pension Plan Investment Strategy

The asset allocation for the company's pension trust (which includes other postretirement benefit plans, except for those of the Sempra Utilities separately described below) at December 31, 2006 and 2005 and the target allocation for 2007 by asset categories are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
Asset Category	2007	2006	2005
U.S. Equity	45 %	46 %	44 %
Foreign Equity	25	24	27
Fixed Income	30	30	29
Total	100 %	100 %	100 %

The company's investment strategy is to stay fully invested at all times and maintain its strategic asset allocation, keeping the investment structure relatively simple. The equity portfolio is balanced to maintain risk characteristics similar to the Morgan Stanley Capital International (MSCI) 2500 index with respect to industry and sector exposures and market capitalization. The foreign equity portfolios are managed to track the MSCI Europe, Pacific Rim and Emerging Markets indexes. Bond portfolios are managed with respect to the Lehman Aggregate Bond Index and Lehman Long Government Credit Bond Index. Other than index weight, the plan does not invest in securities of the company.

Investment Strategy for SoCalGas' Other Postretirement Benefit Plans

The asset allocation for SoCalGas' other postretirement benefit plans at December 31, 2006 and 2005 and the target allocation for 2007 by asset categories are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
Asset Category	2007	2006	2005
U.S. Equity	70 %	74 %	74 %
Fixed Income	30	26	26
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' liability. These plans are managed using index funds.

Investment Strategy for SDG&E's Postretirement Health Plans

The asset allocation for SDG&E's postretirement health plans at December 31, 2006 and 2005 and the target allocation for 2007 by asset categories are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
Asset Category	2007	2006	2005
U.S. Equity	25 %	25 %	23 %
Foreign Equity	5	7	6
Fixed Income	70	68	71
Total	100 %	100 %	100 %

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 match the long-term growth rate of the liability primarily through the use of tax-exempt California municipal bonds.

Future Payments

The company expects to contribute $62 million to its pension plans and $51 million to its other postretirement benefit plans in 2007.

The following table reflects the total benefits expected to be paid for the next 10 years to current employees and retirees from the plans or from the company's assets.

(Dollars in millions)	Pension Benefits	Other Postretirement Benefits
2007	$ 224	$ 42
2008	$ 234	$ 47
2009	$ 244	$ 51
2010	$ 248	$ 55
2011	$ 259	$ 59
2012-2016	$ 1,370	$ 346

The expected future Medicare Part D subsidy payments are as follows:

(Dollars in millions)	
2007	$ 2
2008	$ 2
2009	$ 3
2010	$ 3
2011	$ 3
2012-2016	$ 20

Savings Plans

The company offers trusteed savings plans to all employees. Participation in the plans is immediate for salary deferrals for all employees except for the represented 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, beginning with the start of employment. After one year of each employee's completed service, the company begins to make 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 company common stock but may be transferred by the employee into other investments. Employee contributions are invested in company stock, mutual funds, institutional trusts or guaranteed investment contracts (the same investments to which employees may direct the employer contributions) as elected by the employee. The plan of Elk Hills, a non-wholly owned subsidiary, prohibits investments in stock of the company, and employer matching contributions are invested to mirror the employee-directed contributions. Employer contributions for the Sempra Energy and SoCalGas plans are partially funded by the ESOP referred to below. Company contributions to the savings plans were $31 million in 2006, $29 million in 2005 and $25 million in 2004. The market value of company stock held by the savings plans was $976 million and $824 million at December 31, 2006 and 2005, respectively.

Sempra Commodities also operates defined contribution plans outside of the United States. The contributions made by the company to such plans were $4 million in 2006, $4 million in 2005 and $3 million in 2004.

Employee Stock Ownership Plan

All contributions to the ESOP Trust (described in Note 5) are made by the company; there are no contributions made by the participants. As the company makes contributions, the ESOP debt service is paid and shares are released in proportion to the total expected debt service. Compensation expense is charged and equity is credited for the market value of the shares released. Dividends on unallocated shares are used to pay debt service and are applied against the liability. The Trust held 1.7 million shares and 1.9 million shares, respectively, of Sempra Energy common stock, with fair values of $94 million and $86 million, at December 31, 2006 and 2005, respectively.

NOTE 9. SHARE-BASED COMPENSATION

The company adopted SFAS 123(R) on January 1, 2006. SFAS 123(R) requires the measurement and recognition of compensation expense for all share-based payment awards made to the company's employees and directors based on estimated fair values. The company has share-based compensation plans intended to align employee and shareholder objectives related to the long-term growth of the company. The plans permit a wide variety of share-based awards, including nonqualified stock options, incentive stock options, restricted stock, stock appreciation rights, performance awards, stock payments, and dividend equivalents.

The company currently has 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, with vesting over a four-year period (subject to accelerated vesting upon a change in control or in accordance with severance pay agreements); and expire 10 years from the date of grant. Options are subject to forfeiture or earlier expiration upon termination of employment.

- Non-qualified Stock Options with Dividend Equivalents: Granted only to PE's employees through March 1998, these options include dividend equivalents which are paid upon the exercise of an otherwise in-the-money option.

- 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 (subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control or in accordance with severance pay agreements). Holders of restricted stock have full voting rights. They also have full dividend rights, except for company officers, whose dividends are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock to which the dividends relate.

The company adopted the provisions of SFAS 123(R) using the modified prospective transition method. In accordance with this transition method, the company's consolidated financial statements for prior periods have not been 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 grant date fair value estimated in accordance with the original provisions of 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). The company recognizes compensation costs net of an assumed forfeiture rate and recognizes the compensatio n costs for nonqualified stock options and restricted shares on a straight-line basis over the requisite service period of the award, which is generally four years. The company estimates the forfeiture rate based on its historical experience. On January 1, 2006, the company clarified for most restricted stock awards issued in 2003, 2004, and 2005, that the company will offer to repurchase only enough shares to cover minimum tax withholding requirements upon vesting of the awards. The company accounts for these awards as equity awards in accordance with SFAS 123(R).

Total share-based compensation expense for all of the company's share-based awards was comprised as follows:

(Dollars in millions, except per share amounts)		2006
Share-based compensation expense, before income taxes	$	42
Income tax benefits		(16)
Share-based compensation expense, net of income taxes	$	26
Net share-based compensation expense, per common share		
Basic	$	0.10
Diluted	$	0.10

Capitalized compensation cost was $3 million for 2006.

As a result of adopting SFAS 123(R) on January 1, 2006, the company's net income before income taxes, income from continuing operations, and net income for the year ended December 31, 2006 were $29 million, $18 million and $18 million higher, respectively, and basic and diluted net income per share for the year ended December 31, 2006 were both $0.07 higher than if the company had continued to account for the share-based compensation under APBO 25. In addition, prior to the adoption of SFAS 123(R), the company presented the tax benefit of stock option exercises as operating cash flows. Upon the adoption of SFAS 123(R), the tax benefits resulting from tax deductions in excess of the tax benefit related to compensation cost recognized for those share-based awards are classified as financing cash flows.

As of December 31, 2006, 18,076,566 shares were authorized and available for future grants of share-based awards. In addition, on January 1 of each year, additional shares equal to 1.5 percent of the outstanding shares of Sempra Energy common stock become available for grant. Company practice is to satisfy share-based awards by issuing new shares rather than by open-market purchases.

The company uses 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 the company to make certain assumptions with respect to selected model inputs. Expected volatility is calculated based on the historical volatility of the company's stock price. In accordance with SAB 107, for all share-based compensation awards granted after December 31, 2007, the average expected life will be based on the contractual term of the option and expected employee exercise and post-vesting employment termination behavior. Currently, it is based on the simplified approach provided by 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 fair value for options granted during 2006 was $10.75 per share, using the Black-Scho les model with the following weighted-average assumptions:

	2006
Stock price volatility	23%
Risk-free rate of return	4.3%
Annual dividend yield	2.5%
Expected life	6.2 Years

A summary of the non-qualified stock options as of December 31, 2006 and activity for the year then ended follows:

	Shares under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2005	9,895,711	$ 25.92		
Granted	793,600	$ 46.11		
Exercised	(3,306,937)	$ 24.03		$ 79
Forfeited/canceled	(78,939)	$ 35.44		
Outstanding at December 31, 2006	7,303,435	$ 28.87	5.7	$ 198
Vested or expected to vest,				
at December 31, 2006	7,186,460	$ 28.74	5.7	$ 196
Exercisable at December 31, 2006	5,079,135	$ 25.49	4.8	$ 155

The aggregate intrinsic value at December 31, 2006 is the total of the difference between the company's closing stock price and the exercise price for all in-the-money options. The total fair value of shares vested in 2006 was $12 million.

The $5 million of total compensation cost related to non-vested stock options not yet recognized as of December 31, 2006 is expected to be recognized over a weighted-average period of 2.6 years.

Cash received from option exercises during 2006 was $79 million. The tax benefits realized for the share-based payment award deductions, in addition to the $16 million benefit shown above, totaled $29 million for 2006.

The company uses a Monte-Carlo pricing model to estimate the fair value of the restricted stock awards. The company's determination of fair value is affected by the company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to:

	2006
Risk-free rate of return	4.3%
Annual dividend yield	2.6%
Stock price volatility	24%
Historical volatility (S&P 500)	11%

A summary of the company's restricted stock awards as of December 31, 2006 and the activity during the year is presented below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2005	3,614,858	$ 43.82
Granted	920,900	$ 46.15
Vested	(1,567,755)	$ 43.29
Forfeited	(96,000)	$ 45.25
Nonvested at December 31, 2006	2,872,003	$ 45.81

The $40 million of total compensation cost related to nonvested restricted stock awards not yet recognized as of December 31, 2006 is expected to be recognized over a weighted-average period of 2.1 years. The total fair value of shares vested in 2006 was $68 million.

Prior to the adoption of SFAS 123(R), the company recognized share-based compensation expense in accordance with APBO 25, whereby it would have recorded compensation expense only if it had granted options at a discount, which it did not do, and for certain pre-1999 stock option grants that included dividend equivalents. The company provided pro forma disclosure amounts in accordance with SFAS 148, *Accounting for Stock-Based Compensation—Transition and Disclosure,* as if the fair value method defined by SFAS 123 had been applied to its share-based compensation. The pro forma table below reflects net earnings and basic and diluted net earnings per share for 2005 and 2004, had the company applied the fair value recognition provisions of SFAS 123:

(Dollars in millions, except per share amounts)	2005	2004
Net income as reported	$ 920	$ 895
Stock-based employee compensation expense reported in net income, net of tax	37	24
Total stock-based employee compensation under fair-value method for all awards, net of tax	(43)	(30)
Pro forma net income	$ 914	$ 889
Earnings per share:		
Basic - as reported	$ 3.74	$ 3.92
Basic - pro forma	$ 3.72	$ 3.89
Diluted - as reported	$ 3.65	$ 3.83
Diluted - pro forma	$ 3.63	$ 3.80

The pro forma effects of estimated share-based compensation expense for stock options on net income and earnings per common share for 2005 and 2004 were estimated at the date of grant using the Black-Scholes model based on the following assumptions:

	2005	2004
Stock price volatility	25%	25%
Risk-free rate of return	3.9%	3.7%
Annual dividend yield	2.8%	3.3%
Expected life	6 Years	6 Years

The Black-Scholes model weighted-average estimated fair values of stock options granted in 2005 and 2004 were $8.28 and $6.32 per share, respectively. The total intrinsic values of options exercised in 2005 and 2004 were $74 million and $54 million, respectively. The total fair values of option shares vested in

2005 and 2004 were $13 million and $14 million, respectively. The weighted average grant-date fair values for restricted stock granted in 2005 and 2004 were $36.49 and $30.57 per share, respectively. The total fair values of restricted stock vested in 2005 and 2004 were $10 million and $8 million, respectively.

NOTE 10. FINANCIAL INSTRUMENTS

Fair Value Hedges

Interest-Rate Swaps

The company periodically enters into interest-rate swap agreements to moderate its exposure to interest-rate changes and to lower its overall cost of borrowing. The company's fair value interest-rate swaps are discussed in Note 5.

Commodity Fair Value Hedges

For commodity derivative instruments designated as fair value hedges, the company recognized net pretax unrealized gains of $265 million, $103 million and $68 million for 2006, 2005 and 2004, respectively, which represent portions of gains on hedging instruments determined to be ineffective. These pretax gains include $179 million in 2006, $98 million in 2005 and $74 million in 2004, which represent time value of money which is excluded for hedge assessment purposes. The ineffectiveness gain related to hedges of commodity inventory is included in Operating Revenues from Sempra Global and Parent in the Statements of Consolidated Income.

Cash Flow Hedges

Interest-Rate Swaps

The company's interest-rate swaps to hedge cash flows are discussed in Note 5.

Other Cash Flow Hedges

For other derivative instruments designated as cash flow hedges, the company recognized a net unrealized pretax gain (loss) of $24 million in 2006, $1 million in 2005 and $(3) million in 2004, which represent portions of gains or losses on hedging instruments determined to be ineffective. The ineffectiveness amounts relate to the potential phase-out of synthetic fuels income tax credits, as well as hedges of natural gas purchases and sales related to transportation and storage capacity arrangements. In 2006, the company also reclassified $39 million of losses from Accumulated Other Comprehensive Income (Loss) due to the expectation that these losses are not expected to be recovered. The gains and losses are included in Operating Revenues from Sempra Global and Parent in the Statements of Consolidated Income.

The balances in Accumulated Other Comprehensive Income (Loss) at December 31, 2006 and 2005 related to all cash flow hedges were losses of $50 million and $57 million, respectively, net of income tax. The company expects that $53 million, which is net of income tax, that is currently recorded in Accumulated Other Comprehensive Income (Loss) related to these cash-flow hedges will be reclassified into earnings in 2007 as the hedged items affect earnings.

Sempra Commodities

The carrying values of trading assets and trading liabilities, primarily at Sempra Commodities, are as follows:

	December 31,	
(Dollars in millions)	2006	2005
TRADING ASSETS		
Trading-related receivables and deposits, net:		
Due from trading counterparties	$ 2,610	$ 3,300
Due from commodity clearing organizations and clearing brokers	437	70
	3,047	3,370
Derivative trading instruments:		
Unrealized gains on swaps and forwards	2,389	2,554
OTC commodity options purchased	1,679	1,948
	4,068	4,502
Commodities owned	1,845	2,498
Total trading assets	$ 8,960	$ 10,370
TRADING LIABILITIES		
Trading-related payables	$ 3,211	$ 4,127
Derivative trading instruments sold, not yet purchased:		
Unrealized losses on swaps and forwards	1,670	2,560
OTC commodity options written	634	686
	2,304	3,246
Commodities sold with agreement to repurchase	537	634
Total trading liabilities	$ 6,052	$ 8,007

Based on quarterly measurements, the average fair values during 2006 for trading assets and liabilities approximate $8.9 billion and $6.4 billion, respectively. For 2005, the amounts were $8.8 billion and $7.2 billion, respectively.

Sempra Commodities' credit risk from physical and financial instruments as of December 31, 2006 is represented by their positive fair value after consideration of collateral. Options written do not expose Sempra Commodities to credit risk. Exchange traded futures and options are not deemed to have significant credit exposure since the exchanges guarantee that every contract will be properly settled on a daily basis. Credit risk is also associated with its retail customers.

The following table summarizes the counterparty credit quality and exposure for Sempra Commodities at December 31, 2006 and 2005, 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 $1.9 billion and $2.3 billion at December 31, 2006 and 2005, respectively.

(Dollars in millions)	December 31, 2006	2005
Counterparty credit quality*		
Commodity exchanges	$ 437	$ 70
AAA	19	6
AA	262	440
A	654	1,072
BBB	1,032	1,142
Below investment grade or not rated	1,011	815
Total	$ 3,415	$ 3,545

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

Sempra Utilities

At the Sempra Utilities, the use of derivative instruments is subject to certain limitations imposed by company policy and regulatory requirements. These instruments allow the company to estimate with greater certainty the effective prices to be received by the company and the prices to be charged to its customers. The Sempra Utilities record transactions for natural gas and electric energy contracts in Cost of Natural Gas and Cost of Electric Fuel and Purchased Power, respectively, in the Statements of Consolidated Income. On the Consolidated Balance Sheets, the Sempra Utilities record corresponding regulatory assets and liabilities relating 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.

Fair Value of Financial Instruments

The fair values of certain of the company's financial instruments (cash, temporary investments, notes receivable, dividends 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:

	2006		2005	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments in limited partnerships*	$ 96	$ 134	$ 145	$ 208
Total long-term debt	$ 5,212	$ 5,244	$ 4,919	$ 4,979
Due to unconsolidated affiliates	$ 162	$ 169	$ 162	$ 173
Preferred stock of subsidiaries	$ 196 **	$ 186	$ 198 **	$ 181

* See Note 3.

** $17 million and $19 million in 2006 and 2005, respectively, of mandatorily redeemable preferred stock of subsidiaries is included in Deferred Credits and Other Liabilities and in Other Current Liabilities on the Consolidated Balance Sheets.

The fair values of investments in limited partnerships were based on the present value of estimated future cash flows, discounted at rates available for similar investments. The fair values of debt incurred to acquire limited partnerships were estimated based on the present value of the future cash flows, discounted at rates available for similar notes with comparable maturities. The fair values of the other long-term debt and preferred stock are based on their quoted market prices or quoted market prices for similar securities.

NOTE 11. PREFERRED STOCK OF SUBSIDIARIES

	Call/ Redemption Price	December 31, 2006	December 31, 2005
Not subject to mandatory redemption:		(in millions)	
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		80	80
SoCalGas:			
$25 par value, authorized 1,000,000 shares:			
6% Series, 28,041 shares outstanding		1	1
6% Series A, 783,032 shares outstanding		19	19
Total		20	20
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		79	79
Total not subject to mandatory redemption		179	179
Subject to mandatory redemption:			
SDG&E:			
Without par value: $1.7625 Series, 650,000 and 750,000 shares outstanding at December 31, 2006 and 2005, respectively*	$ 25.00	17	19
Total preferred stock		$ 196	$ 198

* At December 31, 2006 and 2005, $14 million and $16 million, respectively, were included in Deferred Credits and Other Liabilities and $3 million and $3 million, respectively, were included in Other Current Liabilities on the Consolidated Balance Sheets.

PE preferred stock is callable at the applicable redemption price of each series, plus any unpaid dividends. The preferred stock is subject to redemption at PE's option at any time upon at least 30 days' notice, at the applicable redemption price for each series plus any unpaid dividends. All series have one vote per share, cumulative preferences as to dividends, and a liquidation value of $100 per share plus any unpaid dividends.

None of SoCalGas' preferred stock is callable. All series have one vote per share, cumulative preferences as to dividends and liquidation values of $25 per share plus any unpaid dividends. SoCalGas is currently 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), and other rights and privileges that would be established by the board of directors at the time of issuance.

All series of SDG&E's preferred stock have cumulative preferences as to dividends. 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. 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). All series are callable. The $1.7625 Series has a sinking fund requirement to redeem 50,000 shares at $25 per share in 2007; all remaining shares must be redeemed in 2008. On each of January 15, 2007 and January 15, 2006, SDG&E redeemed 100,000 shares.

During 2006, the SDG&E Board of Directors and shareholders approved an amendment to SDG&E’s articles of incorporation that authorizes SDG&E 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) having rights, preferences and privileges that would be established by the board at the time of issuance.

NOTE 12. SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE (EPS)

The following table provides the per share computations for income from continuing operations for the years ended December 31:

2006	Income (millions) (numerator)	Shares (thousands) (denominator)	Per Share Amounts
Basic EPS	$ 1,091	256,477	$ 4.25
Effect of dilutive securities:			
Stock options and restricted stock awards	--	4,891	
Diluted EPS	$ 1,091	261,368	$ 4.17
2005			
Basic EPS	$ 913	245,906	$ 3.71
Effect of dilutive securities:			
Stock options and restricted stock awards	--	4,308	
Equity Units	--	1,874	
Diluted EPS	$ 913	252,088	$ 3.62
2004			
Basic EPS	$ 915	228,271	$ 4.01
Effect of dilutive securities:			
Stock options and restricted stock awards	--	3,595	
Equity Units	--	1,986	
Diluted EPS	$ 915	233,852	$ 3.92

The dilution from common stock options is based on the treasury stock method, whereby the proceeds from the exercise price and unearned compensation as defined by SFAS 123(R) are assumed to be used to repurchase shares on the open market at the average market price for the year. The calculation excludes options for which the exercise price was greater than the average market price for common stock during the year. The company had 789,830 stock options that were outstanding during 2006, but were not included in the computation of diluted EPS for that year because the effect of including these awards would be anti-dilutive, due to the inclusion of unearned compensation in the assumed proceeds. There were no such options in 2005 and 2004.

The dilution from unvested restricted stock awards is based on the treasury stock method, whereby assumed proceeds equivalent to the unearned compensation as defined by SFAS 123(R) related to the awards are assumed to be used to repurchase shares on the open market at the average market price for the year. The company had 850 and 1,566 restricted stock awards that were outstanding during 2006 and 2005, respectively, but were not included in the computation of diluted EPS for the these years because the effect of including these awards would be anti-dilutive.

The company is authorized to issue 750,000,000 shares of no-par-value common stock. In addition, the company is 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.

Excluding shares held by the ESOP, common stock activity consisted of the following:

	2006	2005	2004
Common shares outstanding, January 1	257,187,943	234,175,980	226,598,619
Equity Units	--	19,655,999	--
Savings plan issuance	807,258	376,418	1,638,581
Shares released from ESOP	232,650	228,407	236,620
Stock options exercised	3,306,937	4,023,167	4,124,080
Restricted stock issuances	920,900	1,170,800	1,223,000
Common stock investment plan*	352,736	127,983	611,259
Shares repurchased	(706,554)	(2,453,346)	(181,819)
Shares forfeited and other	(96,180)	(117,465)	(74,360)
Common shares outstanding, December 31	262,005,690	257,187,943	234,175,980

* Participants in the Direct Stock Purchase Plan may reinvest dividends to purchase newly issued shares.

Shares of common stock held by the ESOP were 1,683,766, 1,916,416 and 2,144,823 at December 31, 2006, 2005 and 2004, respectively.

The payment of future dividends and the amount thereof are within the discretion of the company's board of directors. The CPUC's regulation of the Sempra Utilities' capital structure limits the amounts that are available for dividends and loans to the company from the Sempra Utilities. At December 31, 2006, SoCalGas could have provided a total of $78 million to Sempra Energy, through dividends and loans, and no amounts were available from SDG&E.

Equity Units

In 2002, the company issued $600 million of Equity Units. The units included $600 million of the company's 5.60 percent senior notes due May 17, 2007 and a contract to purchase shares of the company stock on May 17, 2005 at a price per share determined by the then-prevailing market price. In 2005, 19,655,999 shares of common stock were issued in settlement of the contracts to purchase the company's common stock for $600 million.

Common Stock Repurchase Program

Unrelated to share-based compensation as described in Note 9, on April 6, 2005, the board of directors authorized the expenditure of up to $250 million for the purchase of shares of common stock, at any time and from time to time, in the open market, in negotiated transactions and otherwise, of which $88 million has been expended through December 31, 2006. No such purchases have been made since June 30, 2005.

NOTE 13. ELECTRIC INDUSTRY REGULATION

Background

One legislative response to the 2000 - 2001 power crisis resulted in the purchase by the California DWR of a substantial portion of the power requirements of 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). The CPUC has established the allocation among the IOUs of the power and its administrative responsibility, including collection of power contract costs from utility customers. Beginning on January 1, 2003, the IOUs resumed responsibility for electric commodity procurement above their allocated share of the DWR's long-term contracts.

Department of Water Resources

The DWR operating agreement with SDG&E, approved by the CPUC, provides that SDG&E is acting as a limited agent on behalf of the DWR in undertaking energy sales and natural gas procurement functions under the DWR contracts allocated to SDG&E's customers. Legal and financial responsibility associated with these activities continues to reside with the DWR. Therefore, 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 the Statements of Consolidated Income.

In December 2005, the CPUC approved a draft decision reallocating one of the state's DWR power contracts (Williams Energy "Power D") from SDG&E to Southern California Edison (Edison). The decision was modified to make the reallocation effective January 1, 2007, allowing SDG&E an additional year to plan for and acquire the necessary replacement resources. In December 2006, the CPUC issued a decision adopting the 2007 revenue requirement submitted by the DWR with a revised rate charged to customers and remitted to the DWR, effective January 1, 2007.

Power Procurement and Resource Planning

In 2001, the CPUC directed the IOUs to resume electric commodity procurement to cover their net short energy requirements by January 1, 2003 and also implemented legislation regarding procurement and renewables portfolio standards. In addition, the CPUC established a process for review and approval of the utilities' long-term resource and procurement plans, which is intended to identify forecasted needs for generation and transmission resources within a utility's service territory to support transmission grid reliability and to serve customers.

In March 2006, control and ownership of the 550-MW Palomar generating plant was transferred from Sempra Generation, which built the plant, to SDG&E. The CPUC has approved the revenue requirement for the plant as proposed by SDG&E.

In 2006, the CPUC issued decisions finding that SDG&E's administration of power purchase agreements and procurement of least-cost dispatch power activities were reasonable and prudent during the period October 1, 2003 through December 31, 2005. The decisions further concluded that SDG&E's procurement-related revenue and expenses during this period were reasonable and prudent.

In October 2006, SDG&E, Calpine Corporation (Calpine), Otay Mesa Energy Center, LLC (OMEC), a wholly owned subsidiary of Calpine, and other Calpine affiliates, entered into an agreement, approved in September 2006 by the CPUC, for SDG&E to purchase power from a 573-MW generating facility under development in the Otay Mesa area of SDG&E's service territory. The agreement includes, among other things, an option in favor of SDG&E to purchase the facility for a fixed price at the end of the 10-year power purchase agreement (PPA) and an option in favor of the plant's owners to compel SDG&E to purchase the plant for a lower fixed price at the end of the PPA. The CPUC also approved an additional return to SDG&E to compensate it for the effect on its financial ratios from the expected requirement to consolidate OMEC in accordance with FIN 46(R), *Consolidation of Variable Interest Entities.* Among other conditions precedent, the transaction also required the approvals of the court having jurisdiction over the Calpine bankruptcy and of the FERC, which were obtained in November 2006 and January 2007, respectively. The remaining conditions precedent are expected to be resolved in the second quarter of 2007. Assuming such resolution is timely attained, the generating facility is expected to b e in commercial operation by mid-2009 and annual capacity payments are estimated to be approximately $70 million.

In December 2005, SDG&E filed an application with the CPUC proposing the construction of the Sunrise Powerlink, a 500-kV transmission line between the San Diego region and the Imperial Valley that is estimated to cost $1.3 billion and be able to deliver 1,000 MW by mid-2010. The purpose of the project is to enhance reliability, provide access to renewable resources and lower the cost of certain delivered energy. SDG&E and the Imperial Irrigation District (IID) have entered into a Memorandum of Agreement (MOA) to build the project, subject to the negotiation of a definitive agreement. If the IID participates in the project in accordance with the MOA, SDG&E's share of the project is estimated to be $1 billion. During 2006, SDG&E reached several milestones, including the California Independent System Operator's (ISO) Board of Governors finding the proposed transmission line economically justified and needed to m eet the demand for electricity in the region, the CPUC's Energy Division deeming the application complete and the company holding public participation hearings to get input on the project. In November 2006, a ruling was issued establishing the scope of the proceeding and targeting a draft decision to be issued in December 2007 and a final decision to be adopted in early 2008. In response to this ruling, SDG&E submitted supplemental testimony in January 2007 to provide additional information and analyses regarding the Sunrise Powerlink project and its potential benefits. The CPUC will also conduct additional public scoping meetings and plans to issue a draft Environmental Impact Report and Environmental Impact Statement for public comment in August 2007.

California Senate Bill 107, enacted in September 2006, requires California's IOUs to achieve a 20 percent renewable energy portfolio by 2010, instead of 2017 as previously required by state law. SDG&E already had been moving forward to achieve a 20 percent goal by 2010, consistent with California's Energy Action Plan (EAP) and EAP II. As of mid-February 2007, SDG&E has executed renewable energy contracts that are expected to supply approximately 13 percent of SDG&E's projected retail demand by the end of 2010, assuming the suppliers deliver as forecasted and the necessary transmission infrastructure is added. Also in September 2006, additional legislative bills were passed, including Assembly Bill 32 and Senate Bill 1368, mandating cuts in greenhouse gas emissions, which could impact costs and growth at the Sempra Utilities and at Sempra Generation's power plants. Any cost impact at the Sempra Utilities is expect ed to be recoverable through rates. The CPUC's adoption of an interim Greenhouse Gas Emissions Performance Standard in January 2007 implements Senate Bill 1368 by prohibiting investor-owned utilities (IOUs) from entering into new, or renewing existing, long-term (five years or longer) contracts for electricity from base-loaded sources that emit more carbon dioxide than a modern natural gas plant (1,100 pounds of carbon dioxide per megawatt-hour). All of SDG&E's existing long-term contracts for electricity, with the exception of the supply contract with Portland General Electric for 89 MW that expires in 2013, are from sources that meet this standard. In September 2006, the CPUC issued a ruling initiating Phase II of its Electric Resource Plan Order Instituting Rulemaking (OIR) which will address the long-term electric procurement plans of SDG&E, Edison and Pacific Gas & Electric for the period 2007 - 2016. SDG&E filed its long-term plan with the CPUC in December 2006, including a ten-year res ource plan that details its expected portfolio of resources over the planning horizon of 2007 - 2016. The long-term plan incorporates the renewable energy and greenhouse gas emissions standards established by the CPUC and by Senate Bill 1368. SDG&E's plan identifies, among other details, the need for additional generation resources beginning in 2010, including a baseload plant in 2012. The plan also indicates that SDG&E has an option to acquire the El Dorado power plant owned by Sempra Generation, as discussed in Note 15 under "Other Natural Gas Cases." A CPUC decision on the long-term plan is expected to be issued by the third quarter of 2007.

San Onofre Nuclear Generating Station (SONGS)

In June 2006, the CPUC adopted a decision granting SDG&E an increase in SONGS' electric rate revenues for 2004 and 2005, which resulted in a $13.2 million increase in pretax income in the second quarter of 2006, in response to SDG&E's request for a rehearing to resolve a computational error in the CPUC's 2004 Cost of Service decision which established the revenue requirement for SDG&E's share of the operating costs of SONGS.

In May 2006, the CPUC adopted a decision in Edison's 2006 General Rate Case. In this decision, SDG&E was authorized a $21.8 million increase in its revenue requirement for 2006, which represents SDG&E's share of the cost recovery requested by Edison.

In 2004, Edison, the operator of SONGS, applied for CPUC approval to replace the steam generators at SONGS, stating that the work needed to be done in 2009 and 2010 for Units 2 and 3, respectively, and would require an estimated capital expenditure of $680 million (in 2004 dollars). SDG&E will participate in the steam generator replacement project and retain its 20 percent ownership share of SONGS. During 2006, SDG&E, Edison and the CPUC's Division of Ratepayer Advocates (DRA) reached a settlement, which was subsequently approved by the CPUC, supporting SDG&E's participation in the replacement project as well as full current operating and maintenance cost recovery via balancing account treatment effective January 1, 2007. The parties agreed to defer a requested return on equity (ROE) increase (to 11.6 percent) to the next cost of capital proceeding.

With the end of the Incremental Cost Incentive Mechanism in 2003, SDG&E's SONGS ratebase restarted at $0 on January 1, 2004 and, therefore, SDG&E's earnings from SONGS are now generally limited to a return on new additions to ratebase, including the company's share of costs associated with the planned steam generator replacements discussed above.

Spent Nuclear Fuel

SONGS owners have responsibility for the interim storage of spent nuclear fuel generated at SONGS until it is accepted by the Department of Energy (DOE) for final disposal. Spent nuclear fuel has been stored in the SONGS Units 1, 2 and 3 spent fuel pools and in the ISFSI. Movement of all spent fuel to the ISFSI was completed as of December 31, 2005, providing sufficient space for the Units 2 and 3 spent fuel pools to meet storage requirements through mid-2007 and mid-2008, respectively. The ISFSI has adequate storage capacity through 2022.

Transmission Formula Rate

In December 2006, SDG&E made a filing with the FERC seeking permission to extend, with some modifications, its current transmission formula rate filings which are set to expire on June 30, 2007. If approved as filed, SDG&E's base transmission revenue requirement would increase from the current $190 million to $233 million per year. In January 2007, the FERC issued an order accepting SDG&E's proposed formula mechanism, approving SDG&E's request for a 50-basis point premium to its base ROE for participation in the ISO and establishing an effective date for the new formula rate of July 1, 2007, subject to refund, as requested by SDG&E. The current formula rate will remain in effect through June 30, 2007. Issues remaining are base ROE and certain operating and maintenance cost inputs, which will be set for hearing.

NOTE 14. OTHER REGULATORY MATTERS

CPUC Rulemaking Regarding Energy Utilities, Their Holding Companies and Non-Regulated Affiliates

In December 2006, the CPUC adopted a decision modifying the rules governing transactions between energy utilities, their holding companies and non-regulated affiliates and also revising the rules for executive compensation reporting. The purpose of the new rule changes is to strengthen the separation between the utility and its parent company and affiliates by requiring additional reporting and adopting provisions to protect a utility’s financial integrity.

Advanced Metering Infrastructure

In March 2005, SDG&E submitted proposals to the CPUC for installing advanced meters with integrated two-way communications functionality. This capital investment has features that would encourage customers to conserve electricity during times of high prices or capacity constraints, and would also result in various operational efficiency and service improvements. The proposal calls for the replacement of SDG&E's 1.4 million electric customer meters, retrofit of SDG&E's 900,000 natural gas customer meters and installation of a two-way communications network and related information systems. CPUC hearings were held in September 2006, and an all-party settlement was filed on February 9, 2007. This settlement, if approved by the CPUC, adds the beneficial functionalities of remote disconnect and a home area network for all customers, thus increasing the estimated capital investment for this project from $450 million to approximately $500 million. A final CPUC decision is expected in April 2007. If the CPUC approves the project as proposed, meter installations are anticipated to commence in the fourth quarter of 2008 and be completed by early 2011.

Gain On Sale Rulemaking

In May 2006, the CPUC adopted a decision standardizing the treatment of gains and losses on future sales of utility property. It provided for an allocation of 100 percent of the gains and losses from depreciable property to ratepayers and a 50/50 allocation of gains and losses from non-depreciable property between ratepayers and shareholders. Under certain circumstances the CPUC would be able to depart from the standard allocation. The DRA and The Utility Reform Network filed a joint request for rehearing of the decision requesting, among other things, that the CPUC adopt a 90/10 allocation of gains from non-depreciable assets between ratepayers and shareholders. In December 2006, the CPUC denied the request for rehearing, but modified its prior decision revising the allocation between ratepayers and shareholders to 67/33.

General Rate Case

In December 2006, SoCalGas and SDG&E each filed a 2008 General Rate Case (GRC) application to establish their authorized 2008 revenue requirements and the ratemaking mechanisms by which those revenue requirements will change on an annual basis over the subsequent five-year period (2009 - 2013). Not included in the proceeding are fuel and purchased power and natural gas costs. Included in the GRC applications are proposed mechanisms for earnings sharing, as well as performance indicators with a maximum annual reward/penalty of $13 million at SoCalGas and $15 million at SDG&E during the 2008 - 2013 period. Relative to authorized revenue requirements for 2006, the GRC requests represent an increase of $211 million for SoCalGas and $252 million ($39 million for natural gas and $213 million for electric) for SDG&E in 2008. A proceeding schedule will be established in early 2007 and a final CPUC decision is expected in late 2007.

In January 2007, SDG&E filed a Phase II GRC application to update its electric marginal cost, revenue allocation and rate design. SDG&E's application sets forth several new rate design and marginal cost allocation proposals, including various dynamic pricing or time differential rate proposals that will encourage customers to shift their usage from peak demand hours to off-peak hours. Also proposed is a phase out of the rate cap enacted by the California Legislature in 2001 at the height of California's energy crisis. Phase II hearings are expected to take place in the third quarter of 2007 with a final CPUC decision by year-end 2007 and adopted rates placed into effect on January 1, 2008. Phase II applies to SDG&E only for its electric service. SDG&E will pursue a similar process for its natural gas rates and service through the Biennial Cost Allocation Proceeding which is scheduled to be filed in December 2 007.

Cost of Capital

In December 2005, the CPUC approved an ROE of 10.7 percent for SDG&E, effective January 1, 2006, an increase from its prior ROE of 10.37 percent. SDG&E’s authorized capital structure remains unchanged at 45.25 percent debt, 5.75 percent preferred stock and 49 percent common equity.

In October 2006, the CPUC approved SDG&E's April 2006 petition to extend to May 2007 its option to file an application to adjust its cost of capital, with any resulting changes in ROE and/or capital structure effective in 2008.

Natural Gas Market OIR

The CPUC considered natural gas market issues, including market design and infrastructure requirements, as part of its Natural Gas Market OIR. A final decision in Phase II of this proceeding was issued in September 2006, reaffirming the adequacy of the capacity of the SoCalGas and SDG&E systems to meet current demand. In particular, the Phase II decision establishes natural gas quality standards that would accommodate regasified LNG supplies. While the decision closed the OIR, several parties, including the South Coast Air Quality Management District (SCAQMD), filed applications with the CPUC for rehearing of the September 2006 decision, contending that the California Environmental Quality Act (CEQA) applies and that impacts on the environment should be fully considered. The CPUC plans to issue a decision on the rehearing requests in March 2007. In January 2007, the SCAQMD filed lawsuits against the CPUC in the California appeals court and t he California Supreme Court challenging the CPUC's September 2006 decision and alleging that CEQA was improperly bypassed. The CPUC has asked the courts to hold the matter in abeyance pending its decision in March 2007.

In May 2006, in a related proceeding, the CPUC approved the Sempra Utilities' Phase I proposal to combine the natural gas transmission costs for SDG&E and SoCalGas so that their customers will pay the same rate for natural gas deliveries at any receipt point once LNG deliveries begin at the Otay Mesa interconnection. Phase II of this implementation proceeding addresses the Sempra Utilities' proposal to establish firm access rights and off-system delivery services to ensure that customers have reliable access to diverse supply sources. The CPUC adopted a decision in December 2006 approving the Sempra Utilities' proposals, with modifications, and directing that firm access rights and off-system services be implemented in 2008, one year after implementing tariffs are adopted in early 2007.

Utility Ratemaking Incentive Awards

Performance-Based Regulation (PBR) consists of three primary components. The first is a mechanism to adjust rates in years between general rate cases or cost of service cases. It annually adjusts base rates from those of the prior year to provide for inflation, productivity and customer growth based on the most recent Consumer Price Index forecast, subject to minimum and maximum percentage increases that change annually.

The second component is a mechanism whereby any earnings that exceed a narrow band above authorized net earnings are shared with customers in varying percentages depending upon the amount of the additional earnings.

The third component consists of a series of measures of utility performance. Generally, if performance is outside of a band around specified benchmarks, the utility is rewarded or penalized certain dollar amounts. The three areas that are eligible for incentive awards or penalties are PBR operational incentives based on measurements of safety, reliability and customer service; demand-side management (DSM) rewards based on the effectiveness of the DSM programs; and natural gas procurement rewards or penalties. The 2004 Cost of Service proceeding established formula-based performance measures for customer service, safety and reliability.

PBR, DSM and Gas Cost Incentive Mechanism (GCIM) awards are not included in the company's earnings until CPUC approval of each award is received. During the year ended December 31, 2006, SDG&E included in pretax earnings $5.9 million related to PBR and $12.0 million related to DSM, and SoCalGas included in pretax earnings $0.9 million related to PBR and $2.5 million related to GCIM.

In June 2006, SoCalGas filed its GCIM Year 12 application requesting a shareholder award of $9.8 million. SoCalGas expects a CPUC decision in the first half of 2007. In October 2006, SDG&E submitted its Gas PBR Year 13 annual report to the CPUC requesting a $2.3 million shareholder award. A CPUC decision on the request is expected mid-2007.

The cumulative amount of certain of these awards had been subject to refund based on the outcome of the Border Price Investigation. In December 2006, the CPUC dismissed the Border Price Investigation and determined that these awards are no longer subject to refund or adjustment by virtue of the investigation. Additional discussion of this proceeding is provided in Note 15 under "Legal Proceedings."

CPUC Investigation of Compliance with Affiliate Rules

In November 2004, the CPUC initiated the independent audit (known as the GDS audit) to evaluate energy-related holding company systems and affiliate activities undertaken by Sempra Energy within the service territories of the Sempra Utilities. A draft audit report covering years 1997 through 2003 was provided to the CPUC's Energy Division in December 2005. In mid-2006, the CPUC decided to coordinate this proceeding with the Border Price Investigation, which was resolved and closed in December 2006. Additional discussion of this proceeding is provided in Note 15 under "Legal Proceedings."

NOTE 15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

At December 31, 2006, the company's reserves for litigation matters were $621 million, of which $519 million related to settlements reached in January 2006 to resolve certain litigation arising out of the 2000 - 2001 California energy crisis. The uncertainties inherent in complex legal proceedings make it difficult to estimate with any degree of certainty the costs and effects of resolving legal matters. Accordingly, costs ultimately incurred may differ materially from estimated costs and could materially adversely affect the company's business, cash flows, results of operations and financial condition.

Continental Forge Settlement

The litigation that is the subject of the January 2006 settlements is frequently referred to as the Continental Forge litigation, although the settlements also include other cases. The Continental Forge class-action and individual antitrust and unfair competition lawsuits alleged that Sempra Energy and the Sempra Utilities unlawfully sought to control natural gas and electricity markets and claimed damages of $23 billion after applicable trebling. A second settlement resolves class-action litigation brought by the Nevada Attorney General in Nevada Clark County District Court involving virtually identical allegations to those in the Continental Forge litigation.

The San Diego County Superior Court entered a final order approving the settlement of the Continental Forge class-action litigation as fair and reasonable on July 20, 2006. The California Attorney General, the DWR, the Utility Consumers Action Network and one class member have filed notices of appeal of the final order. With respect to the individual Continental Forge lawsuits, the Los Angeles City Council has not yet voted to approve the City of Los Angeles' participation in the settlement and it may elect to continue pursuing its individual case against Sempra Energy and the Sempra Utilities. The Nevada Clark County District Court entered an order approving the Nevada class-action settlement in September 2006. Both the California and Nevada settlements must be approved for either settlement to take effect, but the company is permitted to waive this condition. The settlements are not conditioned upon approval by the CPUC, the DWR, or any other governmental or regulatory agency to be effective.

To settle the California and Nevada litigation, the company would make cash payments in installments aggregating $377 million, of which $347 million relates to the Continental Forge and California class action price reporting litigation and $30 million relates to the Nevada antitrust litigation. Of the $377 million, the company paid $83 million in August 2006.

Additional consideration for the California settlement includes an agreement that Sempra LNG would sell to the Sempra Utilities, subject to CPUC approval, regasified LNG from its LNG terminal being constructed in Baja California, Mexico at the California border index price minus $0.02. The Sempra Utilities agreed to seek approval from the CPUC to integrate their natural gas transmission facilities and to develop both firm, tradable natural gas receipt point rights for access to their combined intrastate transmission system and SoCalGas' underground natural gas storage system and filed for approval at the CPUC on July 25, 2006. In addition, Sempra Generation voluntarily would reduce the price that it charges for power and limit the places at which it would deliver power under its contract with the DWR. Based on the expected volumes of power to be delivered under the contract, this discount would have potential value aggregating $300 million over the remaining six-year term of the contract. As a result of recording the price discount of the DWR contract in 2005, earnings reported on the DWR contract for 2006 reflected, and for subsequent years will continue to reflect, original rather than discounted power prices. The price reductions would be reduced by any amounts that exceed a $150 million threshold up to the full amount of the price reduction that Sempra Generation is ordered to pay or incurs as a monetary award, any reduction in future revenues or profits, or any increase in future costs in connection with arbitration proceedings involving the DWR contract.

The reserves recorded for the California and Nevada 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. 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 and for periods from the settlement date through the estimated date of the first payment, 5 percent was used to approximate the company’s average cost of financing. Of the $377 million discussed above, per the terms of the settlement, $83 million was paid in August 2006 and an additional $83 million will be paid in August 2007. Of the remaining amount, $27.3 million is to be paid on the closing date of the settlement and $26.3 million will be paid on each successive anniversary of the closing date through the seventh anniversary of the closing date.

DWR Contract

The DWR commenced an arbitration proceeding in February 2004 against Sempra Generation with respect to the contract under which Sempra Generation sells electricity to the DWR. Among other things, the DWR disputed a portion of Sempra Generation's billings and its manner of delivering electricity. The DWR also sought rescission of the contract, which expires by its terms in 2011.

In April 2006, the arbitration panel issued its decision. The panel refused to rescind the contract and ruled against the DWR on its most significant claims. However, the panel ruled in favor of the DWR on several contractual issues, including disallowing Sempra Generation's pass through in billings to the DWR of certain amounts for Arizona use taxes, electricity transmission losses and natural gas transportation charges. Sempra Generation recorded an additional pretax charge of $25 million in the first quarter of 2006 to provide for the excess of these amounts over the prior reserve of $48 million. The arbitration panel's ruling is final and binding upon both the DWR and Sempra Generation with respect to the issues that were the subject of the arbitration. The $73 million was paid in the second quarter of 2006.

In February 2006, the DWR commenced another arbitration proceeding against Sempra Generation relating to the manner in which Sempra Generation schedules its Mexicali plant. As relief, the DWR seeks $100 million in damages and an order terminating the contract. If this matter is not otherwise resolved, an arbitration hearing is expected to begin in the second half of 2007.

In 2003, Sempra Generation was awarded summary judgment in its favor in a state civil action between Sempra Generation and the DWR, in which the DWR sought to void its contract with Sempra Generation and sought $100 million in punitive damages. In June 2005, the California Court of Appeal reversed the summary judgment decision, concluding that the contract language was ambiguous and that the claims raised by Sempra Generation's complaint and the DWR's cross-complaint for breach of contract and misrepresentation present triable issues of material fact that must be addressed by further evidence and proceedings in the trial court. The case has now been remanded back to the trial court for further proceedings. The trial court vacated the September 2006 jury trial date in order to further consider motions brought by Sempra Generation that would eliminate or limit the issues to be determined at trial and the relief available to the DWR. In Decemb er 2006, the court denied Sempra Generation's motion asking the court to dismiss certain of the DWR claims as being precluded by the April 2006 arbitration. After obtaining the court's permission, the DWR has also filed an amended cross-complaint that contains additional claims and forms of relief.

A number of parties, including the California Energy Oversight Board and the CPUC, filed petitions appealing 2003 FERC orders upholding the DWR's contracts with Sempra Generation and other power suppliers under the *Mobile-Sierra* doctrine's "public interest" standard of review and the FERC order denying rehearing. On December 19, 2006, the United States Court of Appeals for the Ninth Circuit (Ninth Circuit Court of Appeals) granted the appeals and remanded the cases back to the FERC for additional proceedings consistent with the court's rulings. In particular, the FERC has been instructed to reconsider the appropriate standard to apply in its review of the contracts, and may ultimately apply a more rigorous review upon remand. The company intends to seek additional appellate review of this decision with the United States Supreme Court.

Other Natural Gas Cases

In November 2005, the California Attorney General and the CPUC filed a lawsuit in San Diego County Superior Court alleging that in 1998 Sempra Energy and the Sempra Utilities intentionally misled the CPUC, resulting in the utilities' California natural gas pipeline capacity being used to enable Sempra Energy to deliver natural gas to a power plant in Mexico. Plaintiffs also alleged that due to insufficient utility pipeline capacity, SDG&E curtailed natural gas service to electric generators and others, resulting in increased air pollution and higher electricity prices for California consumers from the use of oil as an alternate fuel source. In September 2006, the parties entered into a settlement that required the Sempra Utilities to pay $2 million for attorneys' fees and costs incurred by the California Attorney General, SDG&E to be given the option to purchase Sempra Generation's El Dorado power plant in 2011 for book value subject to FERC approval, and Sempra Energy to pay approximately $5.7 million to SDG&E electricity customers beginning in 2009 to reduce SDG&E's electric procurement costs. The decisions by SDG&E and the CPUC as to whether the option should be exercised are expected to be made in 2007. In addition to resolving the lawsuit, the settlement included as a condition precedent that the CPUC permanently close the Border Price Investigation and Sempra Energy Affiliate Order Instituting Investigation, which the CPUC did in December 2006. The company recorded after-tax expense of $4 million in the third quarter of 2006 to reflect these settlement costs.

In April 2003, Sierra Pacific Resources and its utility subsidiary Nevada Power filed a lawsuit in U.S. District Court in Las Vegas against major natural gas suppliers, including Sempra Energy, the Sempra Utilities and Sempra Commodities, seeking recovery of damages alleged to aggregate in excess of $150 million (before trebling). The lawsuit alleged that the Sempra Energy defendants conspired with El Paso Natural Gas Company to eliminate competition, prevent the construction of natural gas pipelines to serve Nevada and other Western states, and to manipulate natural gas pipeline capacity and supply and the data provided to price indices. Plaintiffs also asserted a breach of contract claim against Sempra Commodities. The U.S. District Court dismissed the case in November 2004, determining that the FERC had exclusive jurisdiction to resolve claims. The Ninth Circuit Court of Appeals heard oral argument on plaintiffs' appeal on February 13, 2007, and took the matter under submission.

Apart from the claims settled in connection with the Continental Forge settlement, there remain pending 13 state antitrust actions that have been coordinated in San Diego Superior Court against Sempra Energy and one or more of its affiliates (the Sempra Utilities and Sempra Commodities, depending on the lawsuit) and other, unrelated energy companies, alleging that energy prices were unlawfully manipulated by the reporting of artificially inflated natural gas prices to trade publications and by entering into wash trades and churning transactions. The plaintiffs suing the company claim that all of the defendants in the lawsuit have damaged them in the amount of $357 million before trebling. In June 2005, the court denied the defendants' motion to dismiss on federal preemption and filed rate doctrine grounds. No trial date has been scheduled for these actions.

Pending in the federal court system are five cases against Sempra Energy, Sempra Commodities, the Sempra Utilities and various other companies, which make similar allegations to those in the state proceedings, four of which also include conspiracy allegations similar to those made in the Continental Forge litigation. The Federal District Court has dismissed four of these actions as preempted under federal law. The remaining case, which includes conspiracy allegations, has been stayed. The Ninth Circuit Court of Appeals heard oral argument on plaintiffs' appeal on February 13, 2007, and took the matter under submission.

Electricity Cases

Various antitrust lawsuits, which seek class-action certification, allege that numerous entities, including Sempra Energy and certain subsidiaries (SDG&E, Sempra Commodities and Sempra Generation, depending on the lawsuit), that participated in the wholesale electricity markets unlawfully manipulated those markets. Collectively, these lawsuits allege damages against all defendants in an aggregate amount in excess of $16 billion (before trebling). In January 2003, the federal court dismissed one of these lawsuits, filed by the Snohomish County, Washington Public Utility District against Sempra Energy and certain non-utility subsidiaries, among others, on the grounds that the claims were subject to the filed rate doctrine and preempted by the Federal Power Act. In September 2004, the Ninth Circuit Court of Appeals affirmed the district court's ruling and in June 2005, the U.S. Supreme Court declined to review the decision. The company believes that this decision serves as a precedent for the dismissal of all other lawsuits against the Sempra Energy companies claiming manipulation of the electricity markets. In October 2005, on the basis of federal preemption and Filed Rate grounds, the San Diego Superior Court dismissed with prejudice the initial consolidated cases that claimed that energy companies, such as the Sempra Energy companies, manipulated the wholesale electricity markets. In January 2007, the California Court of Appeals heard oral argument on plaintiff's appeal of the dismissal and is expected to issue its ruling in the case later in 2007.

In May 2003, the Port of Seattle filed a similar complaint against a number of energy companies, including Sempra Energy, Sempra Generation and Sempra Commodities. That action was dismissed by the San Diego U.S. District Court in May 2004. Plaintiff appealed the decision and the Ninth Circuit Court of Appeals affirmed the dismissal in March 2006. In May and June 2004, two lawsuits substantially identical to the Port of Seattle case were filed in Washington and Oregon U.S. District Courts. These cases were transferred to the San Diego U.S. District Court and motions to dismiss were granted in both cases in February 2005, and plaintiffs have appealed. Oral argument on these appeals has not yet been scheduled. In October 2004, another case was filed in Santa Clara Superior Court against Sempra Generation, alleging claims substantively identical to those in the Port of Seattle case. This action was removed to the San Diego U.S. District Court, which dismissed the action in December 2006. The dismissal was unopposed. A similar action against Sempra Generation, alleging that various entities coerced the DWR into long-term contracts to supply electricity that contained unfair and unreasonable terms in violation of California law, was dismissed with prejudice in September 2005, on federal preemption and Filed Rate grounds. The plaintiff did not appeal this dismissal.

In November 2006, the San Diego U.S. District Court dismissed a lawsuit filed by the California Attorney General in November 2005 against Sempra Commodities alleging illegal market-gaming activities during the California energy crisis and claiming unspecified civil penalties and damages. The court ruled that the attorney general's case could not proceed under federal preemption law, which gives the FERC exclusive authority to regulate wholesale energy markets. The court also rejected the attorney general's attempt to send the case back to state court. The FERC has previously investigated and entered into settlements with numerous energy trading companies, including Sempra Commodities, regarding similar allegations. The California Attorney General filed a notice of appeal of the dismissal in December 2006.

CPUC Border Price Investigation

In November 2002, the CPUC instituted an investigation into the Southern California natural gas market and the price of natural gas delivered to the California - Arizona border between March 2000 and May 2001. SoCalGas, SDG&E and Sempra Energy reached a settlement in May 2006 with Edison that, subject to CPUC review and approval, would resolve disputes between SoCalGas, SDG&E, the other Sempra Energy companies and Edison arising over the last several years regarding the actions and activities being reviewed in the Border Price Investigation. In December 2006, the CPUC adopted a decision approving the settlement and closing the Border Price Investigation with prejudice. The settlement provides for additional transparency for the natural gas storage and procurement activities of SoCalGas and SDG&E, expands and revises SoCalGas' non-core storage program, combines the Sempra Utilities' core gas procurement functions and provides that all natural gas procurement hedging activities by SoCalGas and SDG&E will be outside the procurement incentive mechanisms and paid for by customers.

FERC Refund Proceedings

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

Various parties appealed the FERC's order to the Ninth Circuit Court of Appeals. In September 2005, the Court of Appeals held that the FERC did not have jurisdiction to order refunds from governmental entities. SDG&E (and other California IOUs) subsequently filed claims with the various governmental entities to recoup monies paid over and above the just and reasonable rate for power in the 2000 - 2001 time frame. In August 2006, the Court of Appeals held that the FERC had properly established October 2, 2000 through June 20, 2001 as the refund period and had properly excluded certain bilateral transactions between sellers and the DWR from the refund proceedings. However, the court also held that the FERC erred in excluding certain multi-day transactions from the refund proceedings. Finally, while the court upheld the FERC's decision not to extend the refund proceedings to the summer period (p rior to October 2, 2000), it found that the FERC had erred in not considering other remedies, such as disgorgement of profits, for tariff violations that are alleged to have occurred prior to October 2, 2000. The Court of Appeals remanded the matter to the FERC for further proceedings.

Sempra Commodities previously established reserves for its estimated refund liability that were adjusted during 2004 and 2005 to reflect, among other things, the estimated effect of the FERC's revision of the benchmark prices it will use to calculate refunds, and Sempra Generation recorded its share of the 2004 and 2005 amounts related to its transactions with Sempra Commodities.

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 October 2004, the FERC declined to appeal the court's decision. In December 2006, a group of sellers petitione d the United States Supreme Court to review the Ninth Circuit Court of Appeals' decision. The timing and substance of the FERC's response to the remand is not yet known. However, it is possible that the FERC could order refunds or disgorgement of profits for periods in addition to those covered by its prior refund orders and substantially increase the refunds that ultimately may be required to be paid by Sempra Commodities and other power suppliers.

At December 31, 2006, Sempra Commodities 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 FERC refund case. The company believes adequate reserves have been recorded.

FERC Manipulation Investigation

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

In June 2003, the FERC issued several orders requiring various entities to show cause why they should not be found to have violated California ISO and PX tariffs. First, the FERC directed 43 entities, including Sempra Commodities, to show cause why they should not disgorge profits from certain transactions between January 1, 2000 and June 20, 2001 that are asserted to have constituted gaming and/or anomalous market behavior under the California ISO and/or PX tariffs. Second, the FERC directed more than 20 entities, including Sempra Commodities, to show cause why their activities, in partnership or in alliance with others, during the same period did not constitute gaming and/or anomalous market behavior in violation of the tariffs. Remedies for confirmed violations could include disgorgement of profits and revocation of market-based rate authority. In October 2003, Sempra Commodities agreed to pay $7.2 million in full resolution of these investig ations. That liability was recorded as of December 31, 2003. The Sempra Commodities settlement was approved by the FERC in August 2004. Certain California parties have sought rehearing on this order and the FERC has not yet responded. As a result of the August 2006 decision of the Court of Appeals in the refund proceedings discussed above, additional litigated FERC proceedings alleging tariff violations and seeking profits disgorgement or other remedies may be commenced.

Other Litigation

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

In 1998, Sempra Energy and the Sempra Utilities converted their traditional pension plans (other than the SoCalGas union employee plan) to cash balance plans. In July 2005, a lawsuit was filed against SoCalGas in the U.S. District Court for the Central District of California alleging that the conversion unlawfully discriminated against older employees and failed to provide required disclosure of a reduction in benefits. In October 2005, the court dismissed three of the four causes of action and, in March 2006, dismissed the remaining cause of action. The plaintiffs have appealed the court's ruling.

In May 2003, a federal judge issued an order finding that the DOE's environmental assessment of Sempra Generation's Termoeléctrica de Mexicali (TDM) plant and another, unrelated Mexicali power plant failed to evaluate the plants' environmental impact adequately and called into question the U.S. permits they received to build their cross-border transmission lines. The judge ordered the DOE to conduct additional environmental studies and denied the plaintiffs' request for an injunction blocking operation of the transmission lines, thus allowing the continued operation of the TDM plant. The DOE performed an Environmental Impact Study and the U.S. permits were reissued in April 2005. In August 2005, plaintiff filed an amended complaint that challenges the agency action on the reissued permits, claiming that the government failed to comply with federal environmental regulations in issuing new permits. In November 2006, the court denied the plaintiff's motion for summary judgment and granted the cross motions for summary judgment filed by the government defendants and the intervenors, including TDM. No one has appealed the judge's decision and the time for appeal has passed.

Natural Gas Contracts

The Sempra Utilities buy natural gas under short-term and long-term contracts. Purchases are from various Southwest U.S., U.S. Rockies and Canadian suppliers and are primarily based on monthly spot-market prices. The Sempra Utilities transport natural gas under long-term firm pipeline capacity agreements that provide for annual reservation charges, which are recovered in rates. SoCalGas has commitments with pipeline companies for firm pipeline capacity under contracts that expire at various dates through 2011. Note 14 discusses the CPUC's Gas Market OIR.

SDG&E has natural gas transportation contracts with various interstate pipelines that expire on various dates between 2007 and 2023. SDG&E currently purchases natural gas on a spot basis from Canada, the U.S. Rockies, and the southwestern U.S. to fill its long-term pipeline capacity, and purchases additional spot-market supplies delivered directly to California for its remaining requirements. SDG&E continues its ongoing assessment of its pipeline capacity portfolio, including the release of a portion of this capacity to third parties. In accordance with regulatory directives, SDG&E continues to reconfigure its pipeline capacity portfolio to secure firm transportation rights from a diverse mix of U.S. and Canadian supply sources for its projected core customer natural gas requirements.

At December 31, 2006, the future minimum payments under existing natural gas contracts, primarily for the Sempra Utilities, were:

(Dollars in millions)	Storage and Transportation	Natural Gas	Total
2007	$ 139	$ 1,379	$ 1,518
2008	125	713	838
2009	105	507	612
2010	79	518	597
2011	43	312	355
Thereafter	155	--	155
Total minimum payments	$ 646	$ 3,429	$ 4,075

Total payments under natural gas contracts were $2.9 billion in 2006, $3.5 billion in 2005 and $2.8 billion in 2004.

Sempra LNG has a purchase agreement with British Petroleum (BP) 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 commence in 2009 and will supply half of the capacity of Energía Costa Azul. The price of natural gas to be purchased by Sempra LNG is based on the Southern California border index. As of December 31, 2006, minimum payments under this contract are expected to be $494 million in 2009, $1.1 billion in 2010, $1.1 billion in 2011 and $31.0 billion thereafter, based on the Southern California border index price, plus an estimated 1 percent escalation per year. No minimum payments are expected in 2007 and 2008. Sempra LNG has contracts to sell a portion of the volumes purchased under the BP agreement at prices that are based on the Southern California border index.

Purchased-Power Contracts

For 2007, SDG&E expects to receive 43 percent of its customer power requirements from DWR allocations. Of the remaining requirements, SONGS is expected to account for 20 percent, long-term contracts for 19 percent (of which 5 percent is provided by renewable contracts expiring on various dates through 2025), other SDG&E-owned generation (including Palomar) and tolling contracts for 14 percent and spot market purchases for 4 percent. The long-term contracts expire on various dates through 2032.

Sempra Commodities is committed to purchase $123 million of power in varying amounts through 2014.

At December 31, 2006, the estimated future minimum payments under the long-term contracts (not including the DWR allocations) were:

(Dollars in millions)	
2007	$ 328
2008	340
2009	376
2010	314
2011	307
Thereafter	2,478
Total minimum payments	$ 4,143

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 $344 million in 2006, $363 million in 2005 and $329 million in 2004.

Leases

The company has operating leases on real and personal property expiring at various dates from 2007 to 2045. Certain leases on office facilities contain escalation clauses requiring annual increases in rent ranging from 2 percent to 6 percent. The rentals payable under these leases are determined on both fixed and percentage bases, and most leases contain extension options which are exercisable by the company.

At December 31, 2006, the minimum rental commitments payable in future years under all noncancelable leases were as follows:

(Dollars in millions)	
2007	$ 117
2008	104
2009	98
2010	83
2011	66
Thereafter	162
Total future rental commitments	$ 630

Rent expense totaled $131 million in 2006, $98 million in 2005 and $88 million in 2004.

Construction Projects

Sempra Global has several subsidiaries which have developed or are in the process of constructing various capital projects in the United States and in Mexico. The following is a summary of commitments related to the projects developed or under development. Additional information is provided in Note 2.

Sempra LNG

In December 2004, Sempra LNG entered into agreements primarily for the construction of the Energía Costa Azul LNG receipt facility and for the project's breakwater. As of December 31, 2006, Sempra LNG expects to make payments under the contracts of $241 million, including $234 million in 2007 and $7 million in 2008. 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, 2006, Sempra LNG expects to make payments under this contract of $194 million in 2007 and $108 million in 2008.

Sempra Pipelines & Storage

During 2006, Sempra Pipelines & Storage entered into agreements for the construction of the Energía Costa Azul spur pipeline. At December 31, 2006, Sempra Pipelines & Storage expects to make payments under these contracts of $64 million in 2007.

Guarantees

As discussed in Note 5, the company is a guarantor on a credit facility entered into by Rockies Express in proportion to the company's ownership percentage in Rockies Express. The company also has guaranteed $25 million related to debt issued by Chilquinta Energía Finance Co., LLC, an unconsolidated affiliate. This guarantee is considered to have an immaterial fair value, due to the expectation that performance will not be required.

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.

Sempra Commodities

In January 2007, Sempra Commodities resolved its dispute in regards to a long-term offtake agreement for copper concentrates, with a minor impact on earnings.

Argentine Investments

As a result of the devaluation of the Argentine peso at the end of 2001 and subsequent further declines, Sempra Pipelines & Storage reduced the carrying value of its investment downward by a cumulative total of $202 million as of December 31, 2006 ($201 million as of December 31, 2005). A decision is expected in early 2007 on Sempra Pipelines & Storage's arbitration proceedings under the 1994 Bilateral Investment Treaty between the United States and Argentina for recovery of the diminution of the value of Sempra Pipelines & Storage's investments that has resulted from Argentine governmental actions. Additional information regarding this investment is provided in Note 3.

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 by the DOE will lead to increased costs for spent fuel storage. This cost will be recovered through SONGS revenue unless the company is able to recover the increased cost from the federal government.

Electric Distribution System Conversion

Under a CPUC-mandated program, the cost of which is included in utility rates, and through franchise agreements with various cities, SDG&E is committed, in varying amounts, to converting overhead distribution facilities to underground. As of December 31, 2006, the aggregate unexpended amount of this commitment was $51 million. Capital expenditures for underground conversions were $35 million in 2006, $32 million in 2005 and $23 million in 2004.

Environmental Issues

The company's operations are subject to federal, state and local environmental laws and regulations governing hazardous wastes, air and water quality, land use, solid waste disposal and the protection of wildlife. Laws and regulations require that the company investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the company has been identified as a Potentially Responsible Party (PRP) under the federal Superfund laws and comparable state laws. The company is required to obtain numerous governmental permits, licenses and other approvals to construct facilities and operate its businesses, and must spend significant sums on environmental monitoring, pollution control equipment and emissions fees. Increasing national and international concerns regarding global warming and mercury, carbon dioxide, nitrogen oxide and sulfur dioxide emissions cou ld result in requirements for additional pollution control equipment or significant emissions fees or taxes that could adversely affect Sempra Generation. Costs incurred at the Sempra Utilities to operate the facilities in compliance with these laws and regulations generally have been recovered in customer rates.

Significant costs incurred to mitigate or prevent future environmental contamination or extend the life, increase the capacity or improve the safety or efficiency of property utilized in current operations are capitalized. The company's capital expenditures to comply with environmental laws and regulations were $26 million in 2006, $20 million in 2005 and $22 million in 2004 (includes only the company's share in cases of non-wholly owned affiliates). The cost of compliance with these regulations over the next five years is not expected to be significant.

The company has identified no significant environmental issues outside the United States, except for the now-resolved issue involving the environmental impact studies the DOE conducted of the TDM power plant near Mexicali, Baja California, Mexico. Additional information regarding environmental issues is provided above under "Legal Proceedings."

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 the company or resolved during the last three years include investigation and remediation of the Sempra Utilities' manufactured-gas sites (35 completed as of December 31, 2006 and 10 to be completed), cleanup of third-party waste-disposal sites used by the company, which has been identified as a PRP (investigations and remediations are continuing) and mitigation of damage to the marine environment caused by the cooling-water discharge from SONGS (the requirements for enhanced fish protection, a 150-acre artificial reef and restoration of 150 acres of coastal wetlands are in process).

Environmental liabilities are recorded when the company's liability is probable and the costs are reasonably estimable. In many cases, however, investigations are not yet at a stage where the company has been able to determine whether it is liable or, if the liability is probable, to reasonably estimate the amount or range of amounts of the cost or certain components thereof. Estimates of the company's liability are further subject to other uncertainties, such as the nature and extent of site contamination, evolving remediation standards and imprecise engineering evaluations. The accruals are reviewed periodically and, as investigations and remediation proceed, adjustments are made as necessary. Not including the liability for SONGS marine mitigation, which SDG&E is participating in jointly with Edison, at December 31, 2006, the company's accrued liability for environmental matters was $50 million, of which $38.7 million is related to manufactured-gas sites, $8.9 million to cleanup at SDG&E's former fossil-fueled power plants, $0.9 million to waste-disposal sites used by the company (which has been identified as a PRP) and $1.4 million to other hazardous waste sites. The majority of these accruals are expected to be paid ratably over the next two 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 environmental damage to the marine environment attributed to the cooling-water discharge from SONGS Units 2 and 3. At December 31, 2006, the estimated amount remaining to be spent by SDG&E through 2050 is $17 million, which is recoverable in rates.

Nuclear Insurance

SDG&E and the other owners of SONGS have insurance to respond to nuclear liability claims related to SONGS. The insurance provides coverage of $300 million, the maximum amount available. In addition, the Price-Anderson Act provides for up to $10.5 billion of secondary financial protection. Should any of the licensed/commercial reactors in the United States experience a nuclear liability loss which exceeds the $300 million insurance limit, all utilities owning nuclear reactors could be assessed to provide the secondary financial protection. SDG&E's total share would be up to $40 million, subject to an annual maximum assessment of $6 million, unless a default were to occur by any other SONGS owner. In the event the secondary financial protection limit were insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

SDG&E and the other owners of SONGS have $2.75 billion of nuclear property, decontamination and debris removal insurance and up to $490 million for outage expenses and replacement power costs incurred because of accidental property damage. This coverage is limited to $3.5 million per week for the first 52 weeks and $2.8 million per week for up to 110 additional weeks, after a waiting period of 12 weeks. The insurance is provided through a mutual insurance company, through which insured members are subject to retrospective premium assessments (up to $8.14 million in SDG&E's case).

The nuclear liability and property insurance programs subscribed to by members of the nuclear power generating industry include industry aggregate limits for non-certified acts (as defined by the Terrorism Risk Insurance Act) of terrorism-related SONGS losses, including replacement power costs. There are industry aggregate limits of $300 million for liability claims and $3.24 billion for property claims, including replacement power costs, for non-certified acts of terrorism. These limits are the maximum amount to be paid to members who sustain losses or damages from these non-certified terrorist acts. For certified acts of terrorism, the individual policy limits stated above apply.

Concentration of Credit Risk

The company maintains credit policies and systems to manage 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. The Sempra Utilities grant credit to utility customers and counterparties, substantially all of whom are located in their service territories, which together cover most of Southern California and a portion of central California.

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 $41 million and is normally collected by the end of the next month.

Sempra Commodities monitors and controls its credit-risk exposures through various systems which evaluate its credit risk, and through credit approvals and limits. To manage the level of credit risk, Sempra Commodities deals with a majority of counterparties with good credit standing, enters into netting arrangements whenever possible and, where appropriate, obtains collateral or other security such as lock-box liens and downgrade triggers. Netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterparty in the event of default.

When operational, development projects at Sempra LNG and Sempra Pipelines & Storage will place significant reliance on the ability of their suppliers to perform on long-term agreements and on the company's ability to enforce contract terms in the event of non-performance. Also, factors considered in the evaluation of a project for development include the negotiation of customer and supplier agreements, and therefore, reliance on these agreements for future performance. The decision to go forward on development projects may also be based on these agreements.

NOTE 16. SEGMENT INFORMATION

The company has five separately managed reportable segments: SoCalGas, SDG&E, Sempra Commodities, Sempra Generation and Sempra Pipelines & Storage. The Sempra Utilities operate in essentially separate service territories under separate regulatory frameworks and rate structures set by the CPUC. SoCalGas is a natural gas distribution utility, serving customers throughout most of southern California and part of central California. SDG&E provides electric service to San Diego and southern

Orange counties and natural gas service to San Diego County. Sempra Commodities, based in Stamford, Connecticut, is primarily a wholesale trader of physical and financial energy products and other commodities, and a trader and wholesaler of metals, serving a broad range of customers in the United States, Canada, Europe and Asia. Sempra Commodities' business also includes commodity sales on a retail basis to electricity and natural gas consumers. Sempra Generation primarily owns and operates power plants in California, Nevada, Arizona and Mexico. Sempra Pipelines & Storage develops and owns natural gas pipelines and storage facilities in the United States and Mexico, and holds interests in companies that provide natural gas or electricity services in Argentina, Chile, Mexico and Peru. Although the levels of business unit net income of Sempra Pipelines & Storage in the past did not require treatment as a repo rtable segment, the impairment loss incurred in 2006 on its Argentine investments resulted in a net loss that now requires that Sempra Pipelines & Storage be reported as a segment. Sempra Pipelines & Storage has been reflected as a segment in all periods presented. The "all other" amounts consist primarily of parent organizations and Sempra LNG.

The accounting policies of the segments are described in Note 1, and segment performance is evaluated by management based on reported net income. Sempra Utility transactions are based on rates set by the CPUC and the FERC.

The operations that were discontinued in the first half of 2006, as described in Note 4, 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 exclude amounts from discontinued operations, unless otherwise noted.

Sales to the DWR, which is a customer of the Sempra Generation segment and which is discussed in various sections of this Annual Report, comprise 9% of Sempra Energy's operating revenues in 2006 and 10% in each of 2005 and 2004.

(Dollars in millions)	Years ended December 31, 2006		2005		2004	
OPERATING REVENUES						
SoCalGas	$ 4,181	36 %	$ 4,617	40 %	$ 3,997	43 %
SDG&E	2,785	24	2,512	22	2,274	25
Sempra Commodities	3,256	28	2,724	23	1,689	18
Sempra Generation	1,454	12	1,708	15	1,472	16
Sempra Pipelines & Storage	295	2	317	3	260	3
Adjustments and eliminations	(123)	(1)	(141)	(1)	(125)	(1)
Intersegment revenues	(87)	(1)	(225)	(2)	(333)	(4)
Total	$ 11,761	100 %	$ 11,512	100 %	$ 9,234	100 %
INTEREST EXPENSE						
SoCalGas	$ 70		$ 48		$ 39	
SDG&E	97		74		68	
Sempra Commodities	72		49		25	
Sempra Generation	19		28		34	
Sempra Pipelines & Storage	14		16		17	
All other	262		293		310	
Intercompany eliminations	(183)		(198)		(173)	
Total	$ 351		$ 310		$ 320	
INTEREST INCOME						
SoCalGas	$ 29		$ 12		$ 4	
SDG&E	6		23		25	
Sempra Commodities	10		14		10	
Sempra Generation	32		5		7	
Sempra Pipelines & Storage	18		17		17	
All other	197		199		179	
Intercompany eliminations	(183)		(198)		(173)	
Total	$ 109		$ 72		$ 69	
DEPRECIATION AND AMORTIZATION						
SoCalGas	$ 267	41 %	$ 264	42 %	$ 255	42 %
SDG&E	291	44	264	42	259	43
Sempra Commodities	25	4	28	5	23	4
Sempra Generation	46	7	39	6	28	5
Sempra Pipelines & Storage	12	2	12	2	12	2
All other	16	2	19	3	26	4
Total	$ 657	100 %	$ 626	100 %	$ 603	100 %
INCOME TAX EXPENSE (BENEFIT)						
SoCalGas	$ 173		$ 97		$ 154	
SDG&E	152		89		148	
Sempra Commodities	294		192		161	
Sempra Generation	243		103		87	
Sempra Pipelines & Storage	12		3		5	
All other	(233)		(450)		(365)	
Total	$ 641		$ 34		$ 190	
EQUITY IN EARNINGS (LOSSES) OF UNCONSOLIDATED SUBSIDIARIES						
Earnings (losses) recorded before tax:						
Sempra Generation	$ 354		$ 25		$ 3	
Sempra Pipelines & Storage	1		--		--	
All other	(17)		(14)		(29)	
Total	$ 338		$ 11		$ (26)	
Earnings (losses) recorded net of tax:						
Sempra Pipelines & Storage	$ (166)		$ 55		$ 62	
Sempra Commodities	(16)		--		--	
Total	$ (182)		$ 55		$ 62	

(Dollars in millions)	2006		2005		2004	
	At December 31 or years ended December 31,					
NET INCOME						
SoCalGas*	$ 223	16 %	$ 211	23 %	$ 232	26 %
SDG&E*	237	17	262	28	208	23
Sempra Commodities	504	36	460	50	320	36
Sempra Generation	375	27	149	16	132	15
Sempra Pipelines & Storage	(165)	(12)	64	7	64	7
Discontinued operations	315	22	7	1	(20)	(2)
All other	(83)	(6)	(233)	(25)	(41)	(5)
Total	$ 1,406	100 %	$ 920	100 %	$ 895	100 %
ASSETS						
SoCalGas	$ 6,359	22 %	$ 6,007	21 %	$ 5,633	24 %
SDG&E	7,795	27	7,492	26	6,834	29
Sempra Commodities	9,881	34	11,262	38	7,572	32
Sempra Generation	2,416	8	2,774	9	2,740	11
Sempra Pipelines & Storage	2,215	8	1,775	6	1,207	5
Discontinued operations	62	--	611	2	652	2
All other	1,922	7	567	2	212	1
Intersegment receivables	(1,701)	(6)	(1,242)	(4)	(1,003)	(4)
Total	$ 28,949	100 %	$ 29,246	100 %	$ 23,847	100 %
EXPENDITURES FOR PROPERTY, PLANT & EQUIPMENT						
SoCalGas	$ 413	22 %	$ 361	26 %	$ 311	29 %
SDG&E	1,070	56	464	34	414	39
Sempra Commodities	29	2	57	4	126	12
Sempra Generation	40	2	158	12	125	12
Sempra Pipelines & Storage	181	9	18	1	24	2
All other	644	34	319	23	65	6
Intercompany eliminations	(470)	(25)	--	--	--	--
Total	$ 1,907	100 %	$ 1,377	100 %	$ 1,065	100 %
GEOGRAPHIC INFORMATION						
Long-lived assets						
United States	$ 12,384	87 %	$ 11,254	88 %	$ 10,627	89 %
Latin America	1,865	13	1,493	11	1,177	10
Europe	12	--	100	1	98	1
Total	$ 14,261	100 %	$ 12,847	100 %	$ 11,902	100 %
Operating revenues						
United States	$ 10,407	89 %	$ 10,157	88 %	$ 8,342	90 %
Latin America	637	5	658	6	311	4
Europe	638	6	639	6	519	6
Canada	43	--	33	--	37	--
Asia	36	--	25	--	25	--
Total	$ 11,761	100 %	$ 11,512	100 %	$ 9,234	100 %

*after preferred dividends

NOTE 17. QUARTERLY FINANCIAL DATA

(Dollars and shares in millions, except per share amounts)	Quarters ended March 31*	June 30	September 30	December 31
2006				
Operating revenues	$ 3,336	$ 2,486	$ 2,694	$ 3,245
Operating expenses	2,924	2,149	2,228	2,675
Operating income	$ 412	$ 337	$ 466	$ 570
Income from continuing operations	$ 234	$ 185	$ 543	$ 129
Net income	$ 255	$ 373	$ 653	$ 125
				< P style="font-size:2pt">
Basic earnings per share:				
Income from continuing operations	$ 0.91	$ 0.73	$ 2.11	$ 0.50
Net income	$ 1.00	$ 1.46	$ 2.54	$ 0.48
Average common shares outstanding	254.3	255.7	257.5	258.4
Diluted earnings per share:				< P style="font-size:2pt">
Income from continuing operations	$ 0.90	$ 0.71	$ 2.07	$ 0.49
Net income	$ 0.99	$ 1.43	$ 2.49	$ 0.47
Average common shares outstanding	259.3	260.3	262.1	263.4
2005				< P style="font-size:2pt">
Operating revenues	$ 2,647	$ 2,223	$ 2,710	$ 3,932
Operating expenses	2,370	2,021	2,544	3,488
Operating income	$ 277	$ 202	$ 166	$ 444
				< P style="font-size:2pt">
Income from continuing operations	$ 221	$ 119	$ 216	$ 357
Net income	$ 223	$ 121	$ 221	$ 355
Basic earnings per share:**				< P style="font-size:2pt">
Income from continuing operations	$ 0.95	$ 0.49	$ 0.85	$ 1.41
Net income	$ 0.96	$ 0.50	$ 0.87	$ 1.40
Average common shares outstanding	232.9	243.9	253.0	253.5
				< P style="font-size:2pt">
Diluted earnings per share:**				
Income from continuing operations	$ 0.92	$ 0.47	$ 0.84	$ 1.39
Net income	$ 0.92	$ 0.48	$ 0.86	$ 1.38
Average common shares outstanding	241.1	250.1	257.4	257.8

* Amounts reflect the reclassification for presentation of discontinued operations as discussed in Note 4.

** Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the year.

Net income for the second quarter of 2006 included a $227 million gain from the sale of Twin Oaks in results from discontinued operations. In the third quarter of 2006, net income included a $211 million gain from the sale of the Topaz power plants (as discussed in Note 3) and, in discontinued operations, a $104 million gain on the sale of SEPCO. Also in the third quarter of 2006, net income and income from continuing operations included $38 million from the favorable resolution of a state income tax matter. Net income in the fourth quarter included a $221 million impairment loss associated with Sempra Pipelines & Storage's Argentine investments and, in discontinued operations, a $35 million impairment loss for Bangor Gas and Frontier Energy. Discontinued operations are discussed further in Note 4.

Operating revenues in the fourth quarter of 2005 included a $78 million pretax mark-to-market gain on long-term forward contracts at Sempra Generation and $23 million pretax related to the 2005 IRS decision relating to the sale of SDG&E's former South Bay power plant. Operating expenses in the fourth quarter of 2005 included $190 million pretax California energy crisis litigation expense and $66 million pretax of Sempra Generation impairment losses, primarily all of which was related to the write-down of unused gas and steam turbines. Operating expenses for the third quarter of 2005 included $308 million pretax California energy crisis litigation expense and a $98 million pretax gain on the sale of Sempra Commodities natural gas storage facilities. Net income for the third quarter of 2005 included the favorable resolution of prior years' income tax issues.

Exhibit 21.01
Sempra Energy
Schedule of Significant Subsidiaries
at December 31, 2006

Subsidiary	State of Incorporation or Other Jurisdiction
Chilquinta Energía, S.A.	Chile
Luz del Sur, S.A.A.	Peru
San Diego Gas & Electric Company	California
Sempra Energy Financial	California
Sempra Energy Global Enterprises	California
Sempra Energy International	California
Sempra Energy Resources	California
Sempra Energy Trading Corp.	Delaware
Sempra Metals Group Limited	United Kingdom
Sodigas Pampeana S.A.	Argentina
Sodigas Sur S.A.	Argentina
Southern California Gas Company	California
Topaz Power Partners, LLC	Delaware

EXHIBIT 31.1

CERTIFICATION

I, Donald E. Felsinger, certify that:

1. I have reviewed this Annual Report on Form 10-K of Sempra Energy;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual 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 Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 22, 2007

/S/ Donald E. Felsinger

Donald E. Felsinger
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Mark A. Snell, certify that:

1. I have reviewed this Annual Report on Form 10-K of Sempra Energy;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual 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 Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 22, 2007

/S/ Mark A. Snell

Mark A. Snell
Chief Financial Officer

Exhibit 32.1

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, 2006 (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 22, 2007

/S/ Donald E. Felsinger

Donald E. Felsinger
Chief Executive Officer

Exhibit 32.2

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, 2006 (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 22, 2007

/S/ Mark A. Snell

Mark A. Snell
Chief Financial Officer