

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

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

For the fiscal year ended December 31, 1996  
Commission file number 1-40

PACIFIC ENTERPRISES

-----  
(Exact name of Registrant as specified in its charter)

California

-----  
(State of incorporation)

94-0743670

-----  
(IRS Employer Identification No.)

555 West Fifth Street, Suite 2900, Los Angeles, California

-----  
(Address of principal executive offices)

90013-1011

-----  
(Zip Code)

(213) 895-5000

-----  
(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 and Associated Common Stock Purchase Rights	New York Stock Exchange Pacific Stock Exchange
Preferred Stock	
\$4.75 dividend	
\$4.50 dividend	American Stock Exchange
\$4.40 dividend	Pacific Stock Exchange
\$4.36 dividend	

Securities registered pursuant to Section 12(g) of the Act: None

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes  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.

The aggregate market value of Registrant's voting stock (Common Stock and Preferred Stock) held by non-affiliates at March 17, 1997, was approximately \$2.6 billion. This amount excludes the market value of 1,213,314 shares of Common Stock held by Registrant's directors and executive officers.

Registrant's Common Stock outstanding at March 17, 1997, numbered 84,167,510 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information in this Annual Report is incorporated by reference to information contained or to be contained in other documents filed or to be filed by Registrant with the Securities and Exchange Commission. The following table identifies the information so incorporated in each Part of this Annual Report on Form 10-K and the document in which it is or will be contained.

Annual Report On Form 10-K -----	-	Information Incorporated by Reference and Document in Which Information is or will be Contained -----
Part II	-	Information contained under the captions "Financial Review -- Management's Discussion and Analysis," "Quarterly Financial Data," "Range of Market Prices of Capital Stock" and "Selected Financial Data and Comparative Statistics 1986-1996," in Registrant's 1996 Annual Report to Shareholders.
Part III	-	Information contained under the captions "Election of Directors," "Share Ownership of Directors and Executive Officers" and "Executive Compensation" in Registrant's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on May 8, 1997.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Annual Report on Form 10-K to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Form 10-K.

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THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITH RESPECT TO MATTERS INHERENTLY INVOLVING NUMEROUS RISKS AND UNCERTAINTIES. THESE STATEMENTS ARE IDENTIFIED BY THE WORDS "ESTIMATES," "EXPECTS," "ANTICIPATES," "PLANS," "BELIEVES," AND SIMILAR EXPRESSIONS.

THE ANALYSES EMPLOYED TO DEVELOP THESE STATEMENTS ARE NECESSARILY BASED UPON VARIOUS ASSUMPTIONS INVOLVING JUDGMENTS WITH RESPECT TO THE FUTURE INCLUDING, AMONG OTHER FACTORS, NATIONAL, REGIONAL, AND LOCAL ECONOMIC, COMPETITIVE AND REGULATORY CONDITIONS, LEGISLATIVE DEVELOPMENTS, TECHNOLOGICAL DEVELOPMENTS, INFLATION RATES, WEATHER CONDITIONS, FINANCIAL MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND OTHER UNCERTAINTIES, ALL OF WHICH ARE DIFFICULT TO PREDICT, AND MANY OF WHICH ARE BEYOND THE CONTROL OF THE PACIFIC ENTERPRISES. ACCORDINGLY, WHILE PACIFIC ENTERPRISES BELIEVES THAT THE ASSUMPTIONS UPON WHICH THE FORWARD-LOOKING STATEMENTS ARE BASED, ARE REASONABLE FOR PURPOSES OF MAKING THESE STATEMENTS, THERE CAN BE NO ASSURANCE THAT THESE ASSUMPTIONS WILL APPROXIMATE ACTUAL EXPERIENCE, OR THAT THE EXPECTATIONS SET FORTH IN THE FORWARD-LOOKING STATEMENTS DERIVED FROM THESE ASSUMPTIONS WILL BE REALIZED.

## PART I

### ITEM 1. BUSINESS

#### PACIFIC ENTERPRISES

Pacific Enterprises is a Los Angeles-based utility holding company engaged in supplying natural gas throughout most of southern and part of central California. These operations are conducted through Southern California Gas Company, the nation's largest natural gas distribution utility. Through other subsidiaries, Pacific Enterprises is also engaged in interstate and offshore natural gas transmission to serve its utility operations, natural gas marketing, alternate energy development, centralized heating and cooling for large building complexes, energy management services and investments in international energy utility operations.

Pacific Enterprises was incorporated in California in 1907 as the successor to a corporation organized in 1886. Its principal executive offices are located at 555 West Fifth Street, Los Angeles, California 90013-1011 and its telephone number is (213) 895-5000.

On October 14, 1996, Pacific Enterprises announced an agreement to combine its operations with Enova Corporation ("Enova"), the parent company of San Diego Gas & Electric Company ("SDG&E"). This strategic merger of equals will be a tax-free transaction accounted for as a pooling of interests. The combination was approved by the shareholders of both companies on March 11, 1997. Upon completion of the combination, Pacific Enterprises and Enova will become separate subsidiaries of a new holding company and their common shareholders will become shareholders of the new holding company. Pacific Enterprises' common shareholders will receive 1.5038 shares of new holding company stock for each of their shares of Pacific Enterprises common stock and Enova common shareholders will receive one share of the new holding company common stock for each of their shares of Enova common stock. Preferred stock of Pacific Enterprises, Southern California Gas Company and SDG&E will remain outstanding and unaffected by the business combination. The new company will be incorporated in California and will be exempt from the Public Utility Holding Company Act as an intrastate holding company.

The approval of the California Public Utilities Commission, the approval or disclaimer of jurisdiction of the Federal Energy Regulatory Commission, the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, the approval of the Securities and Exchange Commission and the approval of the Nuclear Regulatory Commission are also required to complete the combination. These approvals are

expected to be completed in late 1997. In the interim, Pacific Enterprises and Enova have formed a joint venture to provide energy and energy related products and services. See "Energy Management Services."

#### SOUTHERN CALIFORNIA GAS COMPANY

Pacific Enterprises' principal subsidiary is Southern California Gas Company ("SoCalGas"), a public utility owning and operating a natural gas distribution, transmission and storage system that supplies natural gas in 535 cities and communities throughout most of southern California and part of central California. SoCalGas is the nation's largest natural gas distribution utility, providing gas service to residential, commercial, industrial, utility electric generation and wholesale customers through approximately 4.8 million meters in a 23,000-square mile service area with a population of approximately 17.4 million.

SoCalGas is subject to regulation by the California Public Utilities Commission ("CPUC") which, among other things, establishes the rates SoCalGas may charge for gas service, including an authorized rate of return on investment. Under current ratemaking policies, SoCalGas' future earnings and cash flow will be determined primarily by the authorized rate of return on rate base, changes to authorized rate base, noncore market pricing and the variance in gas volumes delivered to noncore customers versus CPUC-adopted forecast deliveries and the ability of management to control expenses and investment in line with the amounts authorized by the CPUC to be collected in rates. The impact of any future regulatory restructuring (including the performance based regulation proposal (See "Rates and Regulation")), increased competitiveness in the energy industry, price and availability of electric power generated outside SoCalGas' service area and electric industry restructuring may also affect SoCalGas' future performance.

For 1997, the CPUC has authorized SoCalGas to earn a rate of return of 9.49% on rate base and 11.6% on common equity compared to 9.42% and 11.6% , respectively, in 1996. In 1997, rate base is expected to remain at approximately the same level as 1996. SoCalGas has achieved or exceeded its authorized return on rate base for the last fourteen consecutive years.

OPERATING STATISTICS

The following table sets forth certain operating statistics of SoCalGas from 1992 through 1996.

	Year Ended December 31				
	1996	1995	1994	1993	1992
<b>Gas Sales, Transportation &amp; Exchange</b>					
Revenues (thousands of dollars):					
Residential	\$1,612,739	\$1,553,491	\$1,712,899	\$1,652,562	\$1,483,654
Commercial/Industrial	708,220	751,409	798,180	853,579	836,672
Utility Electric Generation	70,588	104,486	118,353	147,208	194,639
Wholesale	70,291	62,256	98,354	116,737	128,881
Exchange	530	777	690	3,745	5,863
Total in rates	2,462,368(1)	2,472,419(1)	2,728,476(1)	2,773,831	2,649,709
Regulatory balancing accounts					
and other	(40,387)	(193,111)	(141,952)	37,243	190,216
Operating Revenue	\$2,421,981	\$2,279,308	\$2,586,524	\$2,811,074	\$2,839,925
<b>Volumes (millions of cubic feet):</b>					
Residential	235,186	239,417	256,400	247,507	243,920
Commercial/Industrial	374,540	351,649	347,419	339,706	363,124
Utility Electric Generation	139,098	204,582	260,290	212,720	220,642
Wholesale	129,905	128,730	146,279	147,978	149,232
Exchange	5,224	12,735	10,002	16,969	23,888
Total	883,953	937,113	1,020,390	964,880	1,000,806
Core	313,925	324,758	341,469	338,795	334,630
Noncore	570,028	612,355	678,921	626,085	666,176
Total	883,953	937,113	1,020,390	964,880	1,000,806
Sales	315,313	337,952	362,624	352,052	355,177
Transportation	563,416	586,426	647,764	595,859	621,741
Exchange	5,224	12,735	10,002	16,969	23,888
Total	883,953	937,113	1,020,390	964,880	1,000,806
<b>Revenues (per thousand cubic feet):</b>					
Residential	\$6.86	\$6.49	\$6.68	\$6.68	\$6.08
Commercial/Industrial	\$1.89	\$2.14	\$2.30	\$2.51	\$2.30
Utility Electric Generation	\$0.50	\$0.51	\$0.45	\$0.69	\$0.88
Wholesale	\$0.54	\$0.48	\$0.67	\$0.79	\$0.86
Exchange	\$0.10	\$0.06	\$0.07	\$0.22	\$0.25
<b>Customers</b>					
Active Meters (at end of period):					
Residential	4,582,553	4,526,150	4,483,324	4,459,250	4,445,500
Commercial	184,425	184,470	187,518	187,602	189,364
Industrial	22,952	22,976	23,505	23,924	24,419

Utility Electric Generation	9	8	8	8	8
Wholesale	3	3	3	3	2
Total	4,789,942	4,733,607	4,694,358	4,670,787	4,659,293

Residential Meter Usage (annual average):

Revenues (dollars)	\$341	\$345	\$383	\$371	\$334
Volumes (thousands of cubic feet)	50.5	53.2	57.4	55.6	55.0

System Usage (millions of cubic feet):

Average Daily Sendout	2,452	2,579	2,795	2,611	2,717
Peak Day Sendout	4,000	4,120	4,350	4,578	4,547
Sendout Capability (at end of period)	7,917	8,059	7,570	7,351	7,419

Degree Days (2):

Number	1,178(3)	1,241	1,459	1,203	1,258
Average (20 Year)	1,369	1,381	1,418	1,430	1,458
Percent of Average	86.0%	89.9%	102.9%	84.1%	86.3%

Population of Service Area  
(estimated at year end)

17,423,970	17,260,000	17,070,000	15,600,000	15,600,000
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- (1) Beginning January 1, 1994, rates included the ratepayer's portion of the Comprehensive Settlement (the amount included in rates for 1996, 1995 and 1994 was \$90 million, \$84 million and \$119 million, respectively).
- (2) The number of degree days for any period of time indicates whether the temperature is relatively hot or cold. A degree day is recorded for each degree the average temperature for any day falls below 65 degrees Fahrenheit.
- (3) Estimated calendar degree days.



## SERVICE AREA

SoCalGas distributes natural gas throughout a 23,000-square mile service territory with a population of approximately 17.4 million people. As indicated by the following map, its service territory includes most of southern California and part of central California.

[MAP OF SOCAL GAS SERVICE TERRITORY]

Natural gas service is also provided on a wholesale basis to the distribution systems of the City of Long Beach, San Diego Gas & Electric Company and Southwest Gas Corporation.

## UTILITY SERVICES

SoCalGas' customers are separated, for regulatory purposes, into core and noncore customers. Core customers are primarily residential and small commercial and industrial customers, without alternative fuel capability. Noncore customers consist primarily of utility electric generation ("UEG"), wholesale and large commercial and industrial customers. Gas volumes delivered to UEG customers are greatly affected by the price and availability of electric power generated outside of SoCalGas' service area. UEG and other noncore customers are also sensitive to the price relationship between natural gas and alternate fuels, and many are capable of readily switching from one fuel to another, subject to air quality regulations.

SoCalGas offers two basic utility services, sale of gas and transportation of gas through two business units, one focusing on core distribution customers and the other on large volume gas transportation customers. Most residential customers and most other core customers purchase gas directly from SoCalGas. Noncore customers have the option of purchasing gas either from SoCalGas or from other sources (such as brokers or producers) for delivery through SoCalGas' transmission and distribution system. Core customers are permitted to aggregate their gas requirements and also to purchase gas directly from brokers or producers, up to a limit of 10% of SoCalGas' core market. Although the revenues from transportation throughout are less than for gas sales, SoCalGas generally earns the same margin whether SoCalGas buys the gas and sells it to the customer or transports gas already owned by the customer. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - SoCalGas Operations - 1994-1996 Financial Results.")

SoCalGas continues to be obligated to purchase reliable supplies of natural gas to serve the requirements of its core customers. However, the only gas supplies that SoCalGas may offer for sale to noncore customers are the same supplies that it purchases to serve its core customers.

SoCalGas also provides gas storage services for noncore and off-system customers on a bid and negotiated contract basis. The storage service program provides opportunities for customers to store gas on an "as available" basis during the summer to reduce winter purchases when gas costs are generally higher. As of December 31, 1996, SoCalGas stored approximately 11 billion cubic feet of customer-owned gas.

### DEMAND FOR GAS

Natural gas is a principal energy source in SoCalGas' service area for residential, commercial and industrial uses as well as UEG requirements. Gas competes with electricity for residential and commercial cooking, water heating, space heating and clothes drying uses, and with other fuels for large industrial, commercial and UEG uses. Growth in SoCalGas' markets is largely dependent upon the health and expansion of the California economy. SoCalGas added approximately 44,000 new meters in 1996. This represents a growth rate of approximately 1%, which is expected to continue for 1997.

During 1996, approximately 97% of residential energy customers in SoCalGas' service area used natural gas for water heating and 94% for space heating. Approximately 78% of those customers used natural gas for cooking and 72% for clothes drying.

Demand for natural gas by noncore customers such as large volume commercial, industrial and UEG customers is very sensitive to the price of alternative competitive fuels. These customers number only approximately 1,600; however, during 1996, accounted for approximately 16% of total gas revenues and 64% of total gas volumes delivered.

External factors such as weather, electric restructuring, the increased use of hydroelectric power, competing pipeline bypass and general economic conditions can result in significant shifts in this market. Demand for gas for UEG use is also greatly affected by the price and availability of electric power generated in other areas and purchased by SoCalGas' UEG customers. (See "Competition" below.) In 1996, demand for gas for UEG use decreased as a result of an abundance of less-expensive hydroelectric power from high levels of precipitation last winter.

A comprehensive restructuring of the California electric industry intended to increase competition is scheduled to become effective on January 1, 1998. Under the restructuring plan, California electric utilities generally will purchase electricity from a common power pool. In addition, electric customers will be able to purchase electricity directly from other suppliers. Consequently, future volumes of natural gas SoCalGas transports for electric utilities (currently, approximately 16% of SoCalGas' annual throughput) may be adversely affected by increased use of electricity generated by producers outside SoCalGas' service area. The electric industry restructuring may also result in a reduction of electric rates to core customers, but it is unlikely to overcome the entire cost advantage of natural gas for existing uses.

#### COMPETITION

Since interstate pipelines began operations in SoCalGas' service area, SoCalGas' throughput to customers in the Kern County area who use natural gas to produce steam for enhanced oil recovery projects has decreased significantly because of the bypass of SoCalGas' system. The decrease in revenues from enhanced oil recovery customers is subject to full balancing account treatment, except for a 5% incentive to SoCalGas, and therefore, does not have a material impact on earnings. Bypass of other SoCalGas markets may also occur and SoCalGas is fully at risk for reduction in such noncore volumes due to bypass. However, significant additional bypass would require construction of additional facilities by competing pipelines. SoCalGas is continuing to reduce its costs to maintain competitive rates to transportation customers.

To respond to bypass, SoCalGas has received authorization from the CPUC for expedited review of long-term gas transportation contracts with some noncore customers at lower than tariff rates. The CPUC has also approved changes in the methodology for allocating SoCalGas' costs that eliminate subsidization of core customer rates by noncore customers. This allocation flexibility, together with negotiating authority, has enabled SoCalGas to better compete with new interstate pipelines for noncore customers. In addition, under a capacity brokering program, for a fee, SoCalGas provides to noncore customers, or others, a portion of its control of interstate pipeline capacity to allow more direct access to producers. Also, a comprehensive settlement of certain regulatory issues (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors Influencing Future Financial Performance") has improved SoCalGas' competitiveness by reducing the cost of transportation service to noncore customers.

SoCalGas' operations and those of its customers are affected by a growing number of environmental laws and regulations. These laws and regulations affect current operations as well as future expansion. Increasingly complex administrative and reporting requirements of environmental agencies applicable to commercial and industrial customers utilizing gas are not generally applicable to those using electricity. However, anticipated advancement in natural gas technologies should enable gas equipment to remain competitive with alternate energy sources.

## SUPPLIES OF GAS

In 1996, SoCalGas delivered approximately 884 billion cubic feet of natural gas through its system. Approximately 64% of these deliveries were customer-owned gas for which SoCalGas provided transportation services. The balance of gas deliveries was gas purchased by SoCalGas and resold to customers.

Most of the natural gas delivered by SoCalGas is produced outside of California. These supplies are delivered to the SoCalGas' intrastate transmission system by interstate pipeline companies (primarily El Paso Natural Gas Company and Transwestern Pipeline Company) that provide transportation services for supplies purchased from other sources by SoCalGas or its transportation customers. The rates that interstate pipeline companies may charge for gas and transportation services and other terms of service are regulated by the Federal Energy Regulatory Commission ("FERC").

SoCalGas has exercised its step-down option on both the El Paso and Transwestern interstate pipeline systems by 300 million cubic feet per day and 450 million cubic feet per day, respectively, thereby reducing its firm interstate capacity obligations to 1.45 Bcf per day. SoCalGas' requirements to meet the demand of the core market is approximately 1.05 Bcf per day or 400 MMcf per day below its capacity obligation.

SoCalGas has entered into a FERC approved settlement with Transwestern, and an El Paso settlement is currently pending before the FERC. Both settlements define the amount of the unsubscribed capacity costs that is to be recovered from SoCalGas and the other remaining firm service customers, thus reducing SoCalGas' exposure to higher annual reservation charges. Under existing regulation in California, unsubscribed capacity costs are included in customer rates.

The following table sets forth the sources of gas deliveries by SoCalGas from 1992 through 1996.

SOURCES OF GAS

	Year Ended December 31				
	1996	1995	1994	1993	1992
Gas Purchases (Millions of Cubic Feet):					
Market Gas:					
30-Day	153,107	133,298	98,071	84,696	20,695
Other	72,604	72,792	148,371	159,197	198,049
Total Market Gas	225,711	206,090	246,442	243,893	218,744
Affiliates	96,025	98,460	101,276	96,559	99,226
California Producers & Federal Offshore	11,757	29,181	36,158	28,107	42,262
Total Gas Purchases	333,493	333,731	383,876	368,559	360,232
Customer-Owned Gas and Exchange Receipts	518,562	619,721	658,293	622,307	641,080
Storage Withdrawal (Injection) - Net	42,037	(12,278)	(9,299)	(9,498)	14,379
Company Use and Unaccounted For	(10,139)	(4,061)	(12,480)	(16,488)	(14,885)
Net Gas Deliveries	883,953	937,113	1,020,390	964,880	1,000,806
Gas Purchases: (Thousands of dollars)					
Commodity Costs	\$627,107	\$477,595	\$643,865	\$815,145	\$805,550
Fixed Charges*	275,888	264,269	368,516	397,714	397,579
Total Gas Purchases	\$902,995	\$741,864	\$1,012,381	\$1,212,859	\$1,203,129
Average Cost of Gas Purchased (Dollars per Thousand Cubic Feet)**	\$1.88	\$1.42	\$1.68	\$2.21	\$2.24

\* Fixed charges primarily include pipeline demand charges, take or pay settlement costs and other direct billed amounts allocated over the quantities delivered by the interstate pipelines serving SoCalGas.

\*\* The average commodity cost of gas purchased excludes fixed charges.

Market sensitive gas supplies (supplies purchased on the spot market as well as under longer-term contracts and ranging from one month to ten years based on spot prices) accounted for approximately 68% of total gas volumes purchased by SoCalGas during 1996, as compared with 62% and 64%, respectively, during 1995 and 1994. These supplies were generally purchased at prices significantly below those for other long-term sources of supply.

SoCalGas estimates that sufficient natural gas supplies will be available to meet the requirements of its customers into the next century.

#### RATES AND REGULATION

SoCalGas is regulated by the CPUC. The CPUC consists of five commissioners appointed by the Governor of California for staggered six-year terms. It is the responsibility of the CPUC to determine that utilities operate in the best interest of the customer with the opportunity to earn a reasonable return on investment. The regulatory structure is complex and has a very substantial impact on the profitability of SoCalGas.

#### CURRENT RATEMAKING PROCEDURES

Under current ratemaking procedures, the return that SoCalGas is authorized to earn is the product of the authorized rate of return on rate base and the amount of rate base. Rate base consists primarily of net investment in utility plant. Thus, SoCalGas' earnings are affected by changes in the authorized rate of return on rate base, changes to authorized rate base, noncore market pricing, the variance in gas volumes delivered to noncore customers from CPUC-adopted forecast deliveries and SoCalGas' ability to control expenses and investment in line with the amounts authorized by the CPUC to be collected in rates. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - SoCalGas Operations - Ratemaking Procedures.")

SoCalGas' operating and fixed costs, including return on rate base, are allocated between core and noncore customers under a methodology that is based upon the costs incurred in serving these customer classes. For 1997, approximately 89% of the CPUC-authorized gas margin has been allocated to core customers and 11% to noncore customers, including wholesale customers. Under the current regulatory framework, costs may be reallocated between the core and the noncore markets once every other year in a biennial cost allocation proceeding ("BCAP"). The BCAP substantially eliminates the effect on core income of variances in core market demand and gas costs subject to the limitations of the "Gas Cost Incentive Mechanism" ("GCIM").

GCIM is a pilot program, which compares SoCalGas' cost of gas with the average market price of 30-day firm spot supplies delivered to the SoCalGas service area and permits full recovery of all costs within a tolerance band above that average. The cost of purchases above the tolerance band or savings from purchases below the average market price are shared equally between customers and shareholders. A filing has been made with the CPUC requesting a reward to shareholders under the procurement portion of the GCIM for the April 1995-March 1996 program year. The reward amount will be recognized in income when a final CPUC decision is issued.

The GCIM pilot program is scheduled to expire at the end of March 1997. SoCalGas is currently in discussions with the CPUC to extend the GCIM program.

#### PERFORMANCE BASED REGULATION

SoCalGas has filed a "performance based regulation" ("PBR") application with the CPUC to replace the general rate case and certain other traditional regulatory proceedings. PBR, if approved, would allow SoCalGas to be more responsive to consumer interests and compete more

effectively in contestable markets. Key elements of this proposal include a permanent reduction in base rates of \$62 million. As a result of discussions in late 1996, SoCalGas has agreed with the staff of the CPUC to a rate reduction of \$110 million. Other elements of PBR include an indexing mechanism that would limit future rate increases to the inflation rate less a productivity factor and rate refunds to customers if service quality were to deteriorate. This new approach would maintain cost based rates, but would link financial performance with changes in productivity. Although PBR in the near term could result in increased earnings volatility, SoCalGas would have the opportunity to improve financial performance over the long-term to the extent it is able to reduce expenses, increase gas deliveries and generate profits from new products and services.

Under the PBR proposal, SoCalGas would be at risk for certain changes in interest rates and cost of capital, variances in core volumes not caused by weather and achievement of productivity improvements.

It is expected that PBR will be implemented during the last half of 1997.

#### PROPERTIES

At December 31, 1996, SoCalGas owned approximately 2,835 miles of transmission and storage pipeline, 43,435 miles of distribution pipeline and 43,130 miles of service piping. It also owned 10 transmission compressor stations and 5 underground storage reservoirs (with a combined working storage capacity of approximately 116 billion cubic feet) and general office buildings, shops, service facilities, and certain other equipment necessary in the conduct of its business.

Southern California Gas Tower, a wholly owned subsidiary of SoCalGas, has a 15% limited partnership interest in a 52-story office building in downtown Los Angeles. SoCalGas leases, and currently occupies, about half of the building. (See also "Item 2. Properties.")

#### ENERGY MANAGEMENT SERVICES

The Energy Management Services (EMS) business unit of Pacific Enterprises consists of Pacific Interstate Company, Pacific Energy, Pacific Enterprises Energy Management Services, Ensource and other related subsidiaries.

Through its subsidiaries, Pacific Interstate Company purchases natural gas from producers in Canada and from federal waters offshore California and transports it for resale to SoCalGas and others. Two subsidiaries own and operate pipelines and related facilities for deliveries to SoCalGas of gas produced from offshore fields near Santa Barbara, California. Another subsidiary has an interest in pipeline facilities for deliveries to SoCalGas of gas from western Canada. During 1996, deliveries from these subsidiaries accounted for approximately 30% of the total volume of gas purchased by SoCalGas and approximately 11% of SoCalGas' total throughput. The gas is purchased under long-term contracts. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Energy Management Services.")

Ensource, which was also established in 1996, buys, sells and arranges transportation, delivery and storage of natural gas. SoCalGas is a customer of Ensource. Ensource sold approximately 19 MMcfs of natural gas during 1996.

Pacific Enterprises Energy Services (PEES), which also was established in 1996, provides energy related products and services to both commercial and residential customers. The New Product Development (NPD) business unit, established in 1995, was consolidated into EMS in 1996 to support design and launch of new products. Five new residential consumer products were launched during 1996 as well as four commercial customer services.

Pacific Energy develops and operates alternate energy facilities including geothermal, hydro-power, biogas, and woodburning plants. It also operates centralized heating and cooling plants for large building complexes. Pacific Energy owns interests in several small electric generation facilities which are "qualifying facilities" under the Public Utility Regulatory Policies Act. Qualifying facilities are entitled to a mandatory purchase obligation and exemption from regulation in connection with their sale of electricity. Qualifying facility status is not available to any facilities that are more than 50% owned by an electric utility or an electric utility holding company.

Upon the completion of the proposed business combination of Pacific Enterprises and Enova, the new holding company by reason of its indirect ownership of SDG&E will become an electric utility holding company. Consequently, in order to avoid the loss of qualifying facility status, Pacific Enterprises must cause its ownership in these facilities to be not more than 50% prior to the completion of the business combination. Several alternatives to accomplish this result, including the sale of all or part of these facilities, are being considered. Pacific Enterprises does not expect that the sale of these facilities will have a material adverse effect on its consolidated results of operations or financial position.

In order to pursue opportunities in unregulated energy markets pending completion of the business combination with Enova, Pacific Enterprises and Enova formed a joint venture in early 1997 to market energy products.

#### PACIFIC ENTERPRISES INTERNATIONAL

Pacific Enterprises International ("PEI") was established in late 1994 to participate in the international gas infrastructure market and began operations in March 1995.

In April 1996, PEI acquired a 12.5% interest in each of two natural gas utility holding companies in Argentina for \$48.5 million. These utilities serve approximately 1.1 million customers in central and southern Argentina with about 625 million cubic feet of gas per day. PEI has a role in actively managing the utility operations by providing expertise in areas such as underground storage, marketing gas usage and technology applications.

In August 1996, a holding company formed by PEI, together with Enova International and Proxima Gas, was awarded the franchise by the Mexican government to build and operate a natural gas distribution system in Mexicali, Baja California. This distribution network will have the capacity to deliver 80 million cubic feet of gas per day. Licensing will take approximately six months and actual buildout of the pipeline and facilities will be completed over a number of years. It is expected that the first customer will be served in July 1997. The main backbone of the system will be completed in September 1997. Commercial, industrial and residential growth will occur continuously.

Other international projects are currently under evaluation.

#### ENVIRONMENTAL MATTERS

SoCalGas has identified and reported to California environmental authorities 42 former gas manufacturing sites for which it (together with other utilities as to 21 of the sites) may have remedial obligations under environmental laws. As of December 31, 1996, ten of the sites have been remediated, of which six have received certification from the California Environmental Protection Agency. One site remedy is in process. Preliminary investigations, at a minimum, have been completed on 39 of the gas plant sites, including those sites at which the remediations described above have been



completed. In addition, the Company and its subsidiaries are one of a large number of major corporations that have been identified as potentially responsible parties for environmental remediation of three industrial waste disposal sites and two landfill sites.

The CPUC has approved a collaborative settlement which provides for rate recovery of 90% of environmental investigation and remediation costs without reasonableness review. In addition, SoCalGas has the opportunity to retain a portion of any insurance recovery to offset the 10% of costs not recovered in rates.

At December 31, 1996, SoCalGas' estimated remaining liability for investigation and remediation was approximately \$77 million, of which 90% is authorized to be recovered through the rate recovery mechanism described above. The estimated liability is subject to future adjustment pending further investigation. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation -- Factors Influencing Future Performance - Environmental Matters.") Because of current and expected insurance and rate recovery, Pacific Enterprises believes that compliance with environmental laws and regulations will not have a material adverse effect on its consolidated results of operations or financial position.

#### EMPLOYEES

Pacific Enterprises and its subsidiaries employ approximately 7,643 persons. Of these, approximately 6,917 are employed by SoCalGas.

Most field, clerical and technical employees of SoCalGas are represented by the Utility Workers' Union of America or the International Chemical Workers' Union. A contract on wages and working conditions is effective through March 31, 1999.

MANAGEMENT

The executive officers of Pacific Enterprises are as follows:

NAME - - - - -	Age ---	Position -----
Willis B. Wood, Jr.	62	Chairman of the Board and Chief Executive Officer
Richard D. Farman	61	President and Chief Operating Officer
Warren I. Mitchell	59	President, Southern California Gas Company
Larry J. Dagley	48	Senior Vice President and Chief Financial Officer
Frederick E. John	51	Senior Vice President
Eric B. Nelson	47	Senior Vice President
Debra L. Reed	40	Senior Vice President, Southern California Gas Company
Lee M. Stewart	51	Senior Vice President, Southern California Gas Company
Dennis V. Arriola	37	Vice President and Treasurer
Leslie E. LoBaugh, Jr.	51	Vice President and General Counsel
Ralph Todaro	46	Vice President and Controller

Executive officers are elected annually and serve at the pleasure of the Board of Directors.

All of Pacific Enterprises' executive officers have been employed by Pacific Enterprises or its subsidiaries in management positions for more than five years, except for Mr. Dagley and Mr. Arriola. From 1985, until joining Pacific Enterprises in August, 1995, Mr. Dagley was Senior Vice President and Controller (1985-1993) and Senior Vice President and Chief Financial Officer (1993-1995) of Transco Energy Company. From 1987 until joining Pacific Enterprises in August 1994, Mr. Arriola was a Vice President of Bank of America NT&SA (1992-1994) and a Vice President of Security Pacific National Bank (1987-1992).

There are no family relationships between any of Pacific Enterprises' executive officers.

ITEM 2. PROPERTIES

Information with respect to the properties of Pacific Enterprises subsidiaries is set forth in Item 1 of this Annual Report.

ITEM 3. LEGAL PROCEEDINGS

Except for the matters referred to in the financial statements filed with or incorporated by reference in Item 8 or referred to elsewhere in this Annual Report, neither Pacific Enterprises nor any of its subsidiaries is a party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to its businesses.

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

No matters were submitted during the fourth quarter of 1996 to a vote of Pacific Enterprises' security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY

AND RELATED STOCKHOLDER MATTERS

Pacific Enterprises' Common Stock is traded on the New York and Pacific Stock Exchanges. Information as to the high and low sales prices for such stock as reported on the composite tape for stocks listed on the New York Stock Exchange and dividends paid for each quarterly period during the two years ended December 31, 1996 is set forth under the captions "Financial Review--Range of Market Prices of Capital Stock" and "Quarterly Financial Data" in Pacific Enterprises' 1996 Annual Report to Shareholders filed as Exhibit 13.01 to this Annual Report. Such information is incorporated herein by reference.

At December 31, 1996, there were 37,902 holders of record of Pacific Enterprises' Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is set forth under the caption "Financial Review - Selected Financial Data and Comparative Statistics 1986-1996" in Pacific Enterprises' 1996 Annual Report to Shareholders filed as Exhibit 13.01 to this Annual Report. Such information is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is set forth under the caption "Financial Review - Management's Discussion and Analysis" in Pacific Enterprises' 1996 Annual Report to Shareholders filed as Exhibit 13.01 to this Annual Report. Such information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Pacific Enterprises' consolidated financial statements and schedules required by this Item are listed in Item 14(a)1 in Part IV of this Annual Report. The consolidated financial statements listed in Item 14(a)1 are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS

WITH ACCOUNTANTS ON ACCOUNTING

AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item with respect to the Company's directors is set forth under the caption "Election of Directors" in the Company's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on May 8, 1997. Such information is incorporated herein by reference.

Information required by this Item with respect to the Company's executive officers is set forth in Item 1 of this Annual Report.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is set forth under the caption "Election of Directors" and "Executive Compensation" in the Company's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on May 8, 1997. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN

BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is set forth under the caption "Election of Directors" in the Company's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on May 8, 1997. Such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED

TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT

SCHEDULES, AND REPORTS ON FORM 8-K

(a) DOCUMENTS FILED AS PART OF THIS REPORT:

1. CONSOLIDATED FINANCIAL STATEMENTS:

- 1.01 Report of Deloitte & Touche LLP,  
Independent Certified Public Accountants  
(Contained in Exhibit 13.01).
- 1.02 Statement of Consolidated  
Income for the years ended  
December 31, 1996, 1995 and 1994  
(Contained in Exhibit 13.01).
- 1.03 Consolidated Balance Sheet at  
December 31, 1996 and 1995  
(Contained in Exhibit 13.01).
- 1.04 Statement of Consolidated Cash Flows  
for the years ended December 31, 1996,  
1995 and 1994 (Contained in Exhibit 13.01).
- 1.05 Statement of Consolidated Shareholders'  
Equity for the years ended  
December 31, 1996, 1995 and 1994  
(Contained in Exhibit 13.01).
- 1.06 Notes to Consolidated Financial  
Statements (Contained in Exhibit 13.01).

3. ARTICLES OF INCORPORATION AND BY-LAWS:

- 3.01 Articles of Incorporation of  
Pacific Enterprises
- 3.02 Bylaws of Pacific Enterprises.  
(Note 23; Exhibit 3.02)

4. INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS:

(Note: As permitted by Item 601(b)(4)(iii) of Regulation S-K, certain instruments defining the rights of holders of long-term debt for which the total amount of securities authorized thereunder does not exceed ten percent of the total assets of Southern California Gas Company and its subsidiaries on a consolidated basis are not filed as exhibits to this Annual Report. The Company agrees to furnish a copy of each such instrument to the Commission upon request.)

- 4.01 Specimen Common Stock Certificate of Pacific Enterprises (Note 16; Exhibit 4.01).
- 4.02 Specimen Preferred Stock Certificates of Pacific Enterprises (Note 8; Exhibit 4.02).
- 4.03 First Mortgage Indenture of Southern California Gas Company to American Trust Company dated October 1, 1940 (Note 1; Exhibit B-4).
- 4.04 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of July 1, 1947 (Note 2; Exhibit B-5).
- 4.05 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of August 1, 1955 (Note 3; Exhibit 4.07).
- 4.06 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of June 1, 1956 (Note 4; Exhibit 2.08).
- 4.07 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of August 1, 1972 (Note 6; Exhibit 2.19).
- 4.08 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of May 1, 1976 (Note 5; Exhibit 2.20).
- 4.9 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of September 15, 1981 (Note 9; Exhibit 4.25).
- 4.10 Supplemental Indenture of Southern California Gas Company to Manufacturers Hanover Trust Company of California, successor to Wells Fargo Bank, National Association, and Crocker National Bank as Successor Trustee dated as of May 18, 1984 (Note 11; Exhibit 4.29).

- 4.11 Supplemental Indenture of Southern California Gas Company to Bankers Trust Company of California, N.A., successor to Wells Fargo Bank, National Association dated as of January 15, 1988 (Note 13; Exhibit 4.11).
- 4.12 Supplemental Indenture of Southern California Gas Company to First Trust of California, National Association, successor to Bankers Trust Company of California, N.A. (Note 18; Exhibit 4.37).
- 4.13 Rights Agreement dated as of March 7, 1990 between Pacific Enterprises and Security Pacific National Bank, as Rights Agent (Note 19; Exhibit 4).

10. MATERIAL CONTRACTS

- 10.01 Form of Indemnification Agreement between Pacific Enterprises and each of its directors and officers (Note 21; Exhibit 10.07).
- 10.2 Agreement and Plan of Merger and Reorganization dated as of October 12, 1996, by and among Pacific Enterprises, Enova, the New Holding Company, Pacific Sub and Enova Sub (Note 24; Exhibit 10.1).
- 10.3 Operating Agreement of Mineral JV, LLC, dated as of January 13, 1997 (Note 25; Exhibit 10.5).

EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

- 10.4 Restatement and Amendment of Pacific Enterprises 1979 Stock Option Plan (Note 7; Exhibit 1.1).
- 10.5 Pacific Enterprises Supplemental Medical Reimbursement Plan for Senior Officers (Note 8; Exhibit 10.24).
- 10.6 Pacific Enterprises Financial Services Program for Senior Officers (Note 8; Exhibit 10.25).
- 10.7 Pacific Enterprises Supplemental Retirement and Survivor Plan (Note 11; Exhibit 10.36).



- 10.8 Pacific Enterprises Stock Payment Plan (Note 11; Exhibit 10.37).
- 10.9 Pacific Enterprises Pension Restoration Plan (Note 8; Exhibit 10.28).
- 10.10 Southern California Gas Company Pension Restoration Plan For Certain Management Employees (Note 8; Exhibit 10.29).
- 10.11 Pacific Enterprises Executive Incentive Plan (Note 13; Exhibit 10.13).
- 10.12 Pacific Enterprises Deferred Compensation Plan for Key Management Employees (Note 12; Exhibit 10.41).
- 10.13 Pacific Enterprises Employee Stock Ownership Plan and Trust Agreement as amended in toto effective October 1, 1992. (Note 21; Exhibit 10.18).
- 10.14 Pacific Enterprises Stock Incentive Plan (Note 15; Exhibit 4.01).
- 10.15 Pacific Enterprises Retirement Plan for Directors (Note 21; Exhibit 10.20).
- 10.16 Pacific Enterprises Director's Deferred Compensation Plan (Note 21; Exhibit 10.21).
- 10.17 Amended and Restated Pacific Enterprises Employee Stock Option Plan (as of March 4, 1997).
- 10.18 Form of Severance Agreement.
- 10.19 Form of Incentive Bonus Agreement.
- 11. STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
  - 11.01 Pacific Enterprises Computation of Earnings per Share (see Statement of Consolidated Income contained in Exhibit 13.01).

13. ANNUAL REPORT TO SECURITY HOLDERS

13.01 Pacific Enterprises 1996 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).

21. SUBSIDIARIES OF THE REGISTRANT

21.01 List of subsidiaries of Pacific Enterprises.

23. CONSENTS OF EXPERTS AND COUNSEL

23.01 Consent of Deloitte & Touche LLP, Independent Certified Public Accountants.

24. POWER OF ATTORNEY

24.01 Power of Attorney of Certain Officers and Directors of Pacific Enterprises (contained on signature pages).

27. FINANCIAL DATA SCHEDULE

27.01 Financial Data Schedule.

(b) REPORTS ON FORM 8-K:

The following reports on Form 8-K were filed during the last quarter of 1996:

Report Date	Item Reported
-----	-----
October 15, 1996.	Item 5

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NOTE: Exhibits referenced to the following notes were filed with the documents cited below under the exhibit or annex number following such reference. Such exhibits are incorporated herein by reference.

Note Reference	Document
1	Registration Statement No. 2-4504 filed by Southern California Gas Company on September 16, 1940.
2	Registration Statement No. 2-7072 filed by Southern California Gas Company on March 15, 1947.
3	Registration Statement No. 2-11997 filed by Pacific Lighting Corporation on October 26, 1955.
4	Registration Statement No. 2-12456 filed by Southern California Gas Company on April 23, 1956.
5	Registration Statement No. 2-56034 filed by Southern California Gas Company on April 14, 1976.
6	Registration Statement No. 2-59832 filed by Southern California Gas Company on September 6, 1977.
7	Registration Statement No. 2-66833 filed by Pacific Lighting Corporation on March 5, 1980.
8	Annual Report on Form 10-K for the year ended December 31, 1980, filed by Pacific Lighting Corporation.
9	Annual Report on Form 10-K for the year ended December 31, 1981, filed by Pacific Lighting Corporation.
10	[Intentionally Left Blank.]
11	Annual Report on Form 10-K for the year ended December 31, 1984, filed by Pacific Lighting Corporation.
12	Annual Report on Form 10-K for the year ended December 31, 1985, filed by Pacific Lighting Corporation.
13	Annual Report on Form 10-K for the year ended December 31, 1987, filed by Pacific Enterprises.
14	[Intentionally Left Blank.]
15	Registration Statement No. 33-21908 filed by Pacific Enterprises on May 17, 1988.
16	Annual Report on Form 10-K for the year ended December 31, 1988, filed by Pacific Enterprises.
17	[Intentionally Left Blank.]
18	Registration Statement No. 33-50826 filed by Southern California Gas Company on August 13, 1992.
19	Current Report on Form 8-K dated September 25, 1992, filed by Pacific Enterprises.
20	[Intentionally Left Blank.]
21	Annual Report on Form 10-K for the year ended December 31, 1992, filed by Pacific Enterprises.
22	[Intentionally Left Blank.]
23.	Annual Report on Form 10-K for the year ended December 31, 1995, filed by Pacific Enterprises.

24. Current Report on Form 8-K dated October 15, 1996, filed by Pacific Enterprises.
25. Registration Statement No. 333-21229 filed by Mineral Energy Company on February 5, 1997.

SIGNATURES

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

PACIFIC ENTERPRISES

By: WILLIS B. WOOD, JR. /s/

-----  
Name: Willis B. Wood, Jr.

Title: Chairman of the Board and  
Chief Executive Officer

Dated: March 26, 1997

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Each person whose signature appears below hereby authorizes Willis B. Wood, Jr., Richard D. Farman, and Larry J. Dagley, and each of them, severally, as attorney-in-fact, to sign on his or her behalf, individually and in each capacity stated below, and file all amendments to this Annual Report.

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

Signature -----	Title -----	Date -----
WILLIS B. WOOD, JR. /s/ ----- (Willis B. Wood, Jr.)	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 26, 1997
LARRY J. DAGLEY /s/ ----- (Larry J. Dagley)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 26, 1997
RALPH TODARO /s/ ----- (Ralph Todaro)	Vice President and Controller (Principal Accounting Officer)	March 26, 1997
HYLA H. BERTEA /s/ ----- (Hyla H. Berteia)	Director	March 26, 1997
HERBERT L. CARTER /s/ ----- (Herbert L. Carter)	Director	March 26, 1997
RICHARD D. FARMAN /s/ ----- (Richard D. Farman)	Director	March 26, 1997
WILFORD D. GODBOLD, JR./s/ ----- (Wilford D. Godbold, Jr.)	Director	March 26, 1997
IGNACIO E. LOZANO, JR. /s/ ----- (Ignacio E. Lozano, Jr.)	Director	March 26, 1997
PAUL A. MILLER /s/ ----- (Paul A. Miller)	Director	March 26, 1996
RICHARD J. STEGEMEIER /s/ ----- (Richard J. Stegemeier)	Director	March 26, 1997
DIANA L. WALKER /s/ ----- (Diana L. Walker)	Director	March 26, 1997

RESTATED  
ARTICLES OF INCORPORATION  
OF  
PACIFIC ENTERPRISES

First: The name of the corporation is Pacific Enterprises.

Second: The purpose of the corporation is to engage in any lawful act or activity for which a corporation may be organized under the California General Corporation Law other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

Third: The said corporation shall have perpetual existence.

Fourth: 1. AUTHORIZED NUMBER, CLASSES AND SERIES OF SHARES. The total number of shares which this corporation is authorized to issue is six hundred fifteen million (615,000,000), which are to be classified into three classes, of which ten million (10,000,000) shall be shares of Preferred Stock issuable in one or more series, five million (5,000,000) shall be shares of Class A Preferred Stock issuable in one or more series and six hundred million (600,000,000) shall be shares of Common Stock.

Of said ten million (10,000,000) shares of Preferred Stock, three hundred thousand (300,000) shall be shares of a series of \$4.50 Dividend Preferred Stock, one hundred thousand (100,000) shall be shares of a series of \$4.40 Dividend Preferred Stock, two hundred thousand (200,000) shall be shares of a series of \$4.75 Dividend Preferred Stock, two hundred thousand (200,000) shall be shares of a series of \$4.36 Dividend Preferred Stock and two hundred fifty-three (253) shall be shares of a series of \$4.75 Dividend Preferred Stock (convertible on or before October 31, 1966), and all of said series shall have the respective rights, preferences and privileges hereinafter set forth and no others.

The remainder of said shares of Preferred Stock, to wit, nine million, one hundred ninety nine thousand, seven hundred forty seven (9,199,747), and said five million (5,000,000) shares of Class A Preferred Stock, may be issued

from time to time in one or more additional series as determined by the Board of Directors of this corporation which is hereby authorized, within the limitations and restrictions stated herein, to fix or alter, from time to time, the dividend rate (including fixed, variable or adjustable rates), the number of votes per share, the conversion rights, if any, the rights and terms of redemption (including sinking fund provisions), the redemption price or prices, if any, the liquidation preferences, the number of shares, and the distinctive designations of each such additional series while wholly unissued; and to increase or decrease the number of shares of any such series subsequent to the issue of shares of the series, but not below the number of such shares then outstanding. In case the number of such series shall so be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series. The designation of each such additional series shall include the words "Preferred Stock" in the case of Preferred Stock and "Class A Preferred Stock" in the case of Class A Preferred Stock.

2. DIVIDEND RIGHTS. The holders of the shares of the \$4.50 Dividend Preferred Stock, the \$4.40 Dividend Preferred Stock, the \$4.75 Dividend Preferred Stock, the \$4.36 Dividend Preferred Stock and the \$4.75 Dividend Preferred Stock (convertible on or before October 31, 1966), are entitled to receive, when and as declared by said Board of Directors out of any funds legally available therefor, dividends payable quarterly in each year after the issuance thereof on such dates as may be fixed by said Board of Directors at the following rates, and no more:

\$4.50 Dividend Preferred Stock - \$4.50 per share per annum;

\$4.40 Dividend Preferred Stock - \$4.40 per share per annum;

\$4.75 Dividend Preferred Stock - \$4.75 per share per annum;

\$4.36 Dividend Preferred Stock - \$4.36 per share per annum;

\$4.75 Dividend Preferred Stock (convertible on or before October 31, 1966) - \$4.75 per share per annum;

The holders of the shares of each additional series of Preferred Stock and each series of Class A Preferred Stock shall be entitled to receive, when and as declared by said Board of Directors out of any funds legally available therefor, dividends at the respective rate fixed for such



series by the Board of Directors in the resolution providing for the issuance of such series, and no more, payable on such dates as may be fixed by said Board of Directors. There shall be no priority of any series of Preferred Stock over any other series of Preferred Stock in the payment of dividends and there shall be no priority of any series of Class A Preferred Stock over any other series of Class A Preferred Stock in the payment of dividends. The dividends on every series of shares of Preferred Stock and of Class A Preferred Stock shall be cumulative from the date of issuance thereof, or from and after the first day of the dividend period in which the shares of the respective series shall be issued, or from such other date, as may be fixed by said Board of Directors prior to the issuance thereof, and all accrued and current dividends on the Preferred Stock of all series shall be paid or declared and set apart before any dividends are paid or set apart on the Class A Preferred Stock or the Common Stock, and before any assets shall be paid or set apart for the purchase of or for distribution with respect to the Class A Preferred Stock or the Common Stock or any other stock of this corporation not ranking prior to the Preferred Stock.

All accrued and current dividends on the Class A Preferred Stock of all series shall be paid or declared and set apart before any dividends are paid or set apart on the Common Stock, and before any assets shall be paid or set apart for the purchase or redemption of or for distribution with respect to the Common Stock or any other stock of this corporation other than the Preferred Stock. The holders of the shares of Common Stock are entitled to receive all other dividends which may be declared by said Board of Directors.

No dividend on the Class A Preferred Stock or the Common Stock shall be payable until all accrued and accumulated dividends on the shares of Preferred Stock of all series, at the respective rates fixed therefor, from the respective dates of the original issue thereof or such other date as may be fixed by said Board of Directors as aforesaid, up to the date of the declaration of such dividend on Class A Preferred Stock or Common Stock, shall have been paid or declared and set apart. No dividend on the Common Stock shall be payable until all accrued and accumulated dividends on the shares of Class A Preferred Stock of all series, at the respective rates fixed therefor, from the respective dates of the original issue thereof or such other date as may be fixed by said Board of Directors as aforesaid, up to the date of the declaration of such dividend on Common Stock, shall have been paid or declared and set apart.

Section 503 of the California General Corporations Law shall not apply to distribution on shares of Class A Preferred Stock or Common Stock or on any other shares

junior to Preferred Stock or Class A Preferred Stock of this corporation.

3. VOTING RIGHTS. Each share of Common Stock, \$4.50 Dividend Preferred Stock, \$4.40 Dividend Preferred Stock, \$4.75 Dividend Preferred Stock, \$4.36 Dividend Preferred Stock and \$4.75 Dividend Preferred Stock (convertible on or before October 31, 1966) shall be entitled to one vote on each matter submitted to a vote of shareholders.

Each share of each additional series of Preferred Stock and each share of each series of Class A Preferred Stock shall be entitled to such number of votes (if any), not to exceed one vote, as the Board of Directors may specify in the resolution providing for the issuance of such series; provided, however, that each share of Preferred Stock shall be entitled to one vote on each matter as to which, under these Articles of Incorporation, action cannot be taken without the consent of the holders of at least two-thirds of the outstanding shares of the Preferred Stock, as a class.

Except as to shares of Preferred Stock to be issued to redeem, or to be issued in exchange for, an equal number of outstanding shares of Preferred Stock, this corporation shall not without the consent of the holders of at least two-thirds of the outstanding shares of the Preferred Stock, as a class, issue any Preferred Stock, or stock on a parity with the Preferred Stock, in excess of three hundred thousand (300,000) shares (including any Preferred Stock or stock on a parity with Preferred Stock issuable on conversion of other securities), or any stock, or securities convertible into any stock, ranking prior to the Preferred Stock, unless after giving effect to each such transaction, (i) the sum of the aggregate involuntary liquidation preference of all outstanding shares of Preferred Stock of all series and all other stock of this corporation on a parity with or ranking prior to the Preferred Stock (or any Preferred Stock or stock on a parity with or prior to the Preferred Stock issuable on conversion of other securities) is not in excess of the consolidated surplus (including earned, capital and other surplus) of this corporation and its subsidiaries, determined from the consolidated balance sheet in accordance with sound accounting practice, plus the aggregate stated value of all classes of stock of this corporation ranking junior to the Preferred Stock, and (ii) the aggregate of the consolidated net earnings of the corporation and its subsidiaries (determined in accordance with sound accounting practice), for a period of any twelve (12) consecutive months within the eighteen (18) months next preceding the date of such transaction, plus an amount equal to the annual interest charges on the consolidated funded debt of this corporation and its subsidiaries, shall be at least one and one-half times a sum equal to the aggregate of the annual interest charges on the consolidated funded debt

of this corporation and its subsidiaries, and the annual dividend requirements on all outstanding Preferred Stock, and stock on a parity with or ranking prior to the Preferred Stock, and on all preferred stock of subsidiaries outstanding in the hands of the public. In the foregoing computations annual interest charges and annual dividend requirements shall be calculated in respect of any funded debt or stock not having a fixed interest or dividend rate on the basis of the interest or dividend rate prevailing thereon or that would have prevailed thereon at the earliest of the public offering of the stock to be issued, the execution of an agreement to issue the stock to be issued or the issuance of the stock to be issued; the stock to be issued and dividends thereon shall be included; and if any property operated by others has been acquired by this corporation or any subsidiary within such eighteen (18) months period or is to be acquired with all or part of the proceeds of such stock to be issued, such property shall be treated as having been owned by this corporation or such subsidiary for the twelve (12) consecutive months in calculating net earnings.

This corporation, without the consent of the holders of at least two-thirds of the outstanding Preferred Stock, as a class, shall not (i) authorize any stock ranking prior to the outstanding Preferred Stock or (ii) change any provision of the outstanding Preferred Stock which would authorize this corporation to levy assessments thereon, reduce the dividend rate thereof, make the dividends thereon non-cumulative in whole or in part, reduce the redemption price thereof, reduce any amount payable thereon upon voluntary or involuntary liquidation, eliminate, diminish or alter adversely any conversion rights, if any, pertaining thereto, diminish or eliminate voting rights pertaining thereto, diminish or alter adversely any options or rights theretofore granted to the holders thereof to purchase other shares of this corporation, diminish or alter adversely any sinking fund provision relating thereto, or rearrange the priority of outstanding shares of Preferred Stock so as to make them subject to the preferences of other than outstanding shares as to distributions by way of dividends or otherwise.

4. REDEMPTION. Any or all of the series of the \$4.50 Dividend Preferred Stock, the \$4.40 Dividend Preferred Stock, the \$4.75 Dividend Preferred Stock, the \$4.36 Dividend Preferred Stock and the \$4.75 Dividend Preferred Stock (convertible on or before October 31, 1966) are subject to redemption upon payment to the holders whose stock may be called for redemption in each case of the amounts provided for in the following schedule:

\$4.50 Dividend Preferred Stock - one hundred dollars (\$100) per share; together with accrued and

accumulated dividends to the date of redemption on any shares of such stock to be redeemed;

\$4.40 Dividend Preferred Stock - one hundred one dollars and fifty cents (\$101.50) per share; together with accrued and accumulated dividends to the date of redemption on any shares of such stock to be redeemed;

\$4.75 Dividend Preferred Stock - one hundred dollars (\$100) per share; together with accrued and accumulated dividends to the date of redemption on any shares of such stock to be redeemed;

\$4.36 Dividend Preferred Stock - one hundred one dollars and fifty cents (\$101.50) per share if redeemed on or before October 15, 1975 and one hundred one dollars (\$101) per share if redeemed thereafter; together in each case with accrued and accumulated dividends to the date of redemption on any shares of such stock to be redeemed;

\$4.75 Dividend Preferred Stock (convertible on or before October 31, 1966) - one hundred one dollars (\$101) per share; together with accrued and accumulated dividends to the date of redemption on any shares of such stock to be redeemed; together in each case with accrued and accumulated dividends to the date of redemption on any shares of such stock to be redeemed.

Notice of the redemption of any or all of the shares of said series of Preferred Stock shall be given by mail at the respective addresses, as shown on the books of this corporation, to the holders of the Preferred Stock of record on the books of this corporation whose stock is to be redeemed, not less than thirty (30) days prior to the date fixed for such redemption, and such notice of redemption shall also be given by publication in a newspaper of general circulation published in the State of California, once a week for at least thirty (30) days prior to the date fixed for such redemption. If the whole of any one said series or of more than one said series of shares of Preferred Stock is to be redeemed at one time such notice of redemption shall so state; and if shares of Preferred Stock of any one said series or of more than one said series are to be redeemed in part, such notice shall also specify which of said shares of Preferred Stock are to be redeemed by giving the numbers of the stock certificates evidencing the shares to be redeemed. Such notice shall in any case specify the time and place of redemption and the price to be paid for the shares redeemed. Such redemption shall be at such time and place as shall be specified in the notice. From and after the date fixed in any such notice as the date of redemption, unless default shall be made by this corporation in providing moneys at the time and place as aforesaid for the payment of the

redemption price of such Preferred Stock, all dividends on such Preferred Stock so called for redemption shall cease to accrue and all the rights of the holders thereof, as shareholders of this corporation, except the right to receive such redemption price and accrued and accumulated dividends to the date of redemption, shall cease and determine. All certificates of the Preferred Stock so redeemed shall be appropriately cancelled on the books of this corporation and the shares so redeemed represented by such certificates shall be restored to the status of authorized but unissued shares; the number of shares of the series redeemed shall be reduced by the number of shares so redeemed; and the shares so redeemed shall have the status of shares as to which the Board of Directors is authorized, within the limitations and restrictions stated herein, to fix or alter the dividend rate (including fixed, variable or adjustable rates), the number of votes per share, the conversion rights, if any, the rights and terms of redemption (including sinking fund provisions), the redemption price or prices, if any, the liquidation preferences, the number of shares, and the distinctive designations of each additional series. If this corporation shall deposit on or prior to the date fixed for redemption of any such shares of Preferred Stock with one or more banks or trust companies, each having capital and surplus of at least five million dollars (\$5,000,000) and doing business in the State of California, as a trust fund for the benefits of the respective holders of such shares to be redeemed, a sum sufficient to redeem, on the date fixed for redemption thereof, such shares called for redemption, with irrevocable instructions and authority to any one of such depository banks or trust companies to publish, in the name of this corporation, the notice of redemption thereof (or to complete such publication if theretofore commenced) and to pay, on and after the date fixed for such redemption or prior thereto, to the respective holders of such shares, the redemption price thereof upon the surrender of the certificates representing the shares so called for redemption, then from and after the date of such deposit (although prior to the date fixed for redemption) such shares so called for redemption shall be deemed to be redeemed and dividends thereon shall cease to accrue after such date fixed for redemption, and such deposit shall be deemed to constitute full payment of such shares to the respective holders thereof, and from and after the date of such deposit such shares shall be deemed to be no longer outstanding, and the holders thereof shall cease to be shareholders with respect to such shares and shall have no rights with respect thereto except only the right to receive from such bank or banks or trust company or companies payment of the redemption price of such shares without interest, upon surrender of their certificates therefor, and the right to exercise any existing conversion rights in accordance with the express terms of the shares so called

for redemption. Any funds so deposited which are not required for the redemption of shares because of the conversion thereof shall forthwith be returned to this corporation. Moneys so deposited and unclaimed at the end of six (6) years shall be repaid to this corporation and thereafter the holders of such shares called for redemption shall look only to this corporation for payment.

Shares of each other series of Preferred Stock and shares of each series of Class A Preferred Stock shall be redeemable, if at all, upon such terms as specified by the Board of Directors in the resolution providing for the issuance of such series.

5. LIQUIDATION. In the event of a voluntary or involuntary dissolution or liquidation of this corporation, the holders of the shares of each series of Preferred Stock shall be entitled pro rata to receive, without priority between series, out of the surplus profits arising from the business of this corporation and then remaining intact, or, in case such profits shall be insufficient, then from the general assets of this corporation, payment of all accumulated and unpaid dividends thereon at the respective rate fixed for such series together with, in the case of the holders of the shares of the \$4.50 Dividend Preferred Stock, the \$4.40 Dividend Preferred Stock, the \$4.75 Dividend Preferred Stock and the \$4.36 Dividend Preferred Stock, the \$4.75 Dividend Preferred Stock (convertible on or before October 31, 1966) the sum of one hundred dollars (\$100) per share for each share held by such holders, respectively, and in the case of the holders of the shares of each additional series of Preferred Stock, the sum of money per share fixed by the Board of Directors for such series for each share held by such holders, respectively, and such payment shall be made before the holders of the Class A Preferred Stock or the Common Stock shall receive any payment thereon. The holders of the shares of the Preferred Stock of any series shall not be entitled to any further share in the assets of this corporation.

In the event of a voluntary or involuntary dissolution or liquidation of this corporation and after there shall have been paid to, or set aside for payment to, holders of shares of Preferred Stock of all sums which they are entitled to receive in such event, the holders of the shares of each series of Class A Preferred Stock shall be entitled pro rata to receive, without priority between series, out of the surplus profits arising from the business of this corporation and then remaining intact, or, in case such profits shall be insufficient, then from the general assets of this corporation, payment of all accumulated and unpaid dividends thereon at the respective rates fixed for such series together with the sum of money per share determined by the Board of Directors for such series for each share

held by such holders, respectively, and such payment shall be made before the holders of the Common Stock shall receive any payment thereon. The holders of the shares of Class A Preferred Stock of any series shall not be entitled to any further share in the assets of this corporation.

After there shall have been paid to, or set aside for payment to, the holders of shares of Preferred Stock of Class A Preferred Stock of all sums which they are entitled to receive in the event of a voluntary or involuntary dissolution or liquidation of this corporation, the remaining assets of this corporation shall be divided and payable equally to the holders of the Common Stock in proportion to the number of shares held by each.

6. GENERAL. No holder of any class of stock of this corporation shall, as such shareholder, have any right of subscription to shares of any class of this corporation now or hereafter authorized and which may be offered for subscription or sale by this corporation, except that whenever the Board of Directors of this corporation in its discretion may from time to time determine, the holders of the shares of Common Stock of this corporation may be given the right of subscription to all or any part of new shares of Common Stock of this corporation now or hereafter authorized and which may be offered for subscription or sale by this corporation at such price as the Board of Directors may from time to time fix. All stock issued by this corporation shall be fully paid up and non-assessable.

Fifth: Said corporation elects to be governed by all the provisions of the General Corporation Law of California as amended by act of the California Legislature 1975-76 Regular Session, effective January 1, 1977, not otherwise applicable to it under Chapter 23 of that law.

Sixth: 1. LIABILITY OF DIRECTORS. The liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

2. INDEMNIFICATION OF AGENTS. The corporation is authorized by bylaw, agreement or otherwise to provide for indemnification of agents (as defined in Section 317 of the California General Corporations Law) of the corporation to the fullest extent permissible under California law and in excess of that expressly permitted under Section 317 of the California General Corporation Law, subject to the limits on such excess indemnification set forth in Section 204 of the California General Corporation Law.

3. INSURANCE FOR AGENTS. The corporation is authorized to purchase and maintain insurance on behalf of any agent (as defined in Section 317 of the California

General Corporation Law) of the corporation against any liability asserted against or incurred by the agent in such capacity or arising out of the agent's status as such to the fullest extent permitted by California law and whether or not the corporation would have the power to indemnify the agent under the provisions of Section 317 of the California General Corporation Law or these articles of incorporation. The fact that the corporation owns all or a portion of the shares of the company issuing a policy of insurance shall not render this provision inapplicable, if such policy meets the requirements of Section 317 of the California General Corporation Law.

4. REPEAL OR MODIFICATION. No repeal or modification of any provision of this Article Sixth shall adversely affect any protection, right or insurance afforded to any director or other agent (as defined in Section 317 of the California General Corporation Law) of the corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

Seventh: ELIMINATION OF CUMULATIVE VOTING. No holder of any class of stock of this corporation shall be entitled to cumulate votes at any election of directors of this corporation.



## PACIFIC ENTERPRISES

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EMPLOYEE STOCK OPTION PLAN\*  
-----I  
PURPOSE

The purpose of this Plan is to further the growth and development of Pacific Enterprises (the "Company") by strengthening the ability of the Company to attract and retain outstanding employees upon whose judgment, initiative and efforts the continued success of the Company is dependent, by providing employees with additional incentives for high levels of performance and by increasing the commonality of interests of employees and the Company's shareholders. This Plan seeks to accomplish these purposes by providing employees with a proprietary interest in the Company through the grant of stock options to purchase shares of the Company's Common Stock.

II  
ADMINISTRATION

This Plan shall be administered by the Compensation Committee of the Company's Board of Directors.

The Compensation Committee shall, subject to the express provisions of this Plan, have full and final authority in its sole discretion:

(a) To grant stock options to persons eligible for selection to participate in this Plan provided that no employee may be granted in any calendar year stock options to purchase more than an aggregate of 75,000 shares of the Company's Common Stock;

(b) To determine the terms and conditions (which need not be identical) of each stock option;

(c) To modify or amend any stock option granted under this Plan (except to reduce the option price thereof or increase the number of shares subject thereto, other than as required or permitted pursuant to Article IV of this Plan) or waive any restrictions or conditions applicable thereto or to the exercise thereof, provided that an optionee's rights may not be adversely affected in any material respect without the consent of the optionee.

(d) To construe and interpret this Plan and any related stock option and define the terms employed herein and therein;

(e) To prescribe, amend and rescind rules, regulations and policies for the administration of this Plan; and

(f) To make all other determinations necessary or advisable with respect to this Plan and any stock option granted hereunder.

The Compensation Committee, in its sole discretion and upon such terms and conditions as it may prescribe, may designate one or more officers or a committee of officers of the Company or its subsidiaries to exercise any or all of the foregoing authority of the Compensation Committee except authority with respect to the grant of stock options to, or stock options held by, any person who, at the time such authority is exercised, is subject to Section 16 of the Securities Act of 1934 in respect of equity securities of the Company.

\*Amended and restated as of March 4, 1997

No member of the Board of Directors or the Compensation Committee or agent or designee thereof will be liable for any action or inaction in respect of this Plan or any stock option granted under this Plan.

### III PARTICIPATION

Officers and other employees of the Company or any of its subsidiaries (any corporation of which 50% or more of the issued and outstanding stock having ordinary voting rights is owned directly or indirectly by the Company or any other business entity or association of which 50% or more of the outstanding equity interest is so owned) shall be eligible for selection to participate in this Plan. Directors who are not also employees of the Company or its subsidiaries shall not be eligible for selection to participate in this Plan.

### IV SHARES SUBJECT TO STOCK OPTIONS

Stock options granted under this Plan shall be for the purchase of shares of Common Stock of the Company. The maximum number of shares as to which stock options may be granted under this Plan during 1994 shall be 830,000 shares. During each subsequent year the maximum number of shares as to which stock options may be granted under this Plan shall be a number of shares equal to 1% of the number of shares of the Company's Common Stock outstanding at the beginning of such year. If any stock option granted under this Plan shall for any reason expire or terminate during the year in which it is granted without having been exercised in full, then any unexercised shares which were subject to such option shall again be available for the grant of stock options under this Plan during such year.

If the outstanding shares of the Company's Common Stock are increased or decreased as a result of split-up or consolidation thereof, stock dividend thereon or a similar transaction, or are changed into or exchanged for a different number or kind of securities as a result of a reclassification or recapitalization or of a reorganization, merger or consolidation then, in each such case, an appropriate and proportionate adjustment shall be made in the number and the kind of securities as to which stock options may be granted under this Plan and to any employee. A corresponding adjustment shall likewise be made in the number and kind of securities to which stock options then outstanding shall relate. Any such adjustment, however, in an outstanding stock option shall be made without change in the total purchase price applicable to the securities to which such stock option relates but with a corresponding adjustment in the option price for each such security.

### V TERMS OF STOCK OPTIONS

Each stock option granted under this Plan shall be subject to the following terms and conditions:

(a) **OPTION PRICE.** The option price of each share purchasable upon exercise of a stock option shall be determined by the Compensation Committee but shall be not less than 100% of the fair market value of the shares subject to the stock option on the date the stock option is granted. Unless a higher option price is specified by the Compensation Committee, the option price of each share purchasable upon exercise of a stock option shall be 100% of the fair market value on the date the stock option is granted.

(b) **OPTION TERM.** The term of each stock option shall be determined by the Compensation Committee. Unless a different term is specified by the Compensation Committee, the term of a stock option shall be for ten years from the date the stock option is granted.

(c) **EXERCISABILITY.** Each stock option shall be exercisable either immediately or at such time or times as may be determined by the Compensation Committee. Unless a different determination is specified by the Compensation Committee, a stock option shall become and remain exercisable in cumulative installments of 20% of the shares originally subject thereto on each of the first five anniversaries of the date the stock option is granted.

(d) DIVIDEND EQUIVALENTS. Each stock option may provide for the payment upon the exercise of the stock option of dividend equivalents (the amount of dividends that would have been paid on the shares as to which a stock option is exercised had the shares been outstanding from the date the stock option was granted) as may be determined by the Compensation Committee. Unless a different determination is specified by the Compensation Committee, full dividend equivalents shall be paid by the Company in cash to the employee upon the exercise of a stock option.

(e) TERMINATION OF EMPLOYMENT. Each option shall expire at such times following the optionee's termination of employment with the Company and its subsidiaries as may be determined by the Compensation Committee. Unless a different determination is specified by the Compensation Committee:

(1) Upon the termination of employment by reason of the retirement by the optionee after having attained age 60, a stock option shall expire on the earlier of (a) three years from the date of retirement or (b) the date on which it would otherwise have expired, and during that period shall be exercisable only as to the shares as to which it was exercisable on the last day of employment.

(2) Upon the termination of employment by reason of the death of the optionee, a stock option shall expire on the earlier of (a) three years from the date of the employee's death or (b) the date on which it would otherwise have expired, and during that period shall be exercisable only as to the shares as to which it was exercisable on the last day of employment.

(3) Upon the termination of employment for any other reason, a stock option shall expire on the earlier of (a) three months from the date of termination of employment or (b) the date on which it would otherwise have expired, and during that period shall be exercisable only as to the shares as to which it was exercisable on the last day of employment.

(f) NON-TRANSFERABILITY. Each stock option shall be non-transferable by the optionee other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

(g) ADDITIONAL TERMS AND CONDITIONS. Each stock option shall be subject to such additional terms and conditions, not inconsistent with the terms of this Plan, as may be determined by the Compensation Committee including, without limitation, provisions for increases in the option price or changes in the term of the stock option, individual or corporate performance conditions to the exercisability of the stock option or the payment of dividend equivalents and limitations on amounts payable as dividend equivalents.

## VI

### CHANGE IN CONTROL

Upon the occurrence of a change in control of the Company, any time periods relating to the exercise of any stock option granted under this Plan and held by any optionee who is an employee of the Company or its subsidiaries at the time of the change of control shall be accelerated and any conditions to exercise thereof shall immediately terminate so that immediately upon the change in control the stock option thereafter may be exercised at any time or from time to time in whole or in part as to all shares remaining subject to the stock option until the expiration date thereof.

The Compensation Committee may make such further provisions with respect to a change in control of the Company as it shall deem equitable and in the best interests of the Company. Such provision may be made in any stock option granted under this Plan or any agreement relating thereto, by amendment or supplement to any such stock option or agreement, or by resolution of the Compensation Committee.

The phrase "change in control of the Company" shall have such meaning as from time to time ascribed thereto by the Compensation Committee and set forth in any stock option granted under this Plan or any agreement relating thereto or by any amendment or supplement to any such stock option or

agreement, or by resolution of the Compensation Committee; provided, however, that notwithstanding the foregoing, a "change in control of the Company" shall be deemed to have occurred if:

(i) Any person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing 20% or more of the combined voting power of the Company's then outstanding securities; or

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

(iii) There is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (a) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or its subsidiaries, at least 60% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (b) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing 20% or more of the combined voting power of the Company's then outstanding securities; or

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

Notwithstanding the foregoing, no event or transaction which would otherwise constitute a change of control under clauses (i) through (iv) shall constitute a change of control for purposes of any stock option if effected in connection with either (a) the currently pending business combination of the Company and Enova Corporation or (b) any other substantially similar business combination of the Company and Enova Corporation that is effected on or prior to December 31, 1999. In addition, any event or transaction which would otherwise constitute a change in control under clauses (i) through (iv) shall not constitute a change of control for purposes of any stock option granted to an individual who in connection with the event or transaction participates as an equity investor in the acquiring entity or any of its affiliates. For purposes of the preceding sentence, an individual shall not be deemed to have participated as an equity investor in the acquiring entity or any of its affiliates by virtue of (a) obtaining beneficial ownership of any equity interest in the acquiring entity or any of its affiliates as a result of the grant to the individual of an incentive compensation award under one or more incentive plans of the acquiring entity or any of its affiliates (including, but not limited to, the conversion in connection with such event or transaction of incentive compensation awards of the Company or its subsidiaries into incentive compensation awards of the

acquiring entity or any of its affiliates), on terms and conditions substantially equivalent to those applicable to other executives of the Company or its subsidiaries immediately prior to such event or transaction, after taking into account normal differences attributable to job responsibilities, title and the like, (b) obtaining beneficial ownership of any equity interest in the acquiring entity or any of its affiliates on terms and conditions substantially equivalent to those obtained in such transaction by all other shareholders of the Company, or (c) having previously obtained beneficial ownership of any equity interest in the acquiring entity or any of its affiliates in a manner unrelated to such event or transaction.

For purposes of this Article VI, the following definitions shall be applicable:

(i) "affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.

(ii) "beneficial owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

(iii) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

(iv) "person" shall have the meaning set forth in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (a) the Company or any of its subsidiaries, (b) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its affiliates, (c) an underwriter temporarily holding securities pursuant to an offering of such securities, (d) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (e) a person or group as used in Rule 13d-2(b) under the Exchange Act.

## VII

### TERMINATION OF 1988 INCENTIVE PLAN

Upon the approval of this Plan by shareholders of the Company, the Company's Stock Incentive Plan approved by the Company's Board of Directors and shareholders in 1988 shall terminate as to the grant of additional incentive awards.

## VIII

### GENERAL PROVISIONS

(a) Nothing in this Plan or in related agreement will confer upon any employee any right to continue in the employ of the Company or any of its subsidiaries or affect the right of the Company to terminate the employment of any employee at any time with or without cause.

(b) No employee (individually or as a member of a group) and no beneficiary or other person claiming under or through such employee will have any right, title, or interest in or to any shares allocated or reserved under this Plan or subject to any stock option except as to such shares, if any, that have been issued to such employee.

(c) The Company may make such provisions as it deems appropriate to withhold any taxes which it determines it is required to withhold in connection with the exercise of any stock option.

(d) No stock option and no right under this Plan, contingent or otherwise, will be assignable or subject to any encumbrance, pledge or charge of any nature except that, under such rules and regulations as the Company may establish pursuant to the terms of the Plan, a beneficiary may be designated with respect to a stock option in the event of death of the employee granted the stock option.

(e) No shares will be issued under this Plan or any stock option granted under this Plan unless and until all then applicable requirements imposed by federal and state securities and other laws, rules and regulations and by any regulatory agencies having jurisdiction, and by any stock exchanges upon which the shares may be listed, have been fully met.

(f) In the event that any member of the Compensation Committee shall fail to be a "disinterested person" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 or an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, the Board of Directors of the Company may appoint a committee of two or more directors, each of whom shall be a disinterested director and an outside director, to administer this Plan and, upon such appointment, such committee shall become the administrator of this Plan and shall succeed to all of the authority vested in the Compensation Committee by this Plan.

#### IX

##### AMENDMENT AND TERMINATION

The Board of Directors of the Company may at any time, suspend, amend, modify or terminate this Plan, provided that no amendment or modification shall become effective which, within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, would:

(i) materially increase the benefits accruing to participants in this Plan,

(ii) materially increase the number of shares which may be issued under this Plan, or

(iii) materially modify the requirements as to eligibility for participation in this Plan.

unless approved by the affirmative vote of the holders of a majority of the Company's shares present, or represented, and entitled to vote at a meeting duly held in accordance with applicable law. No such suspension, amendment, modification or termination of this Plan shall alter or impair any rights or obligations under any stock option theretofore granted under this Plan.

#### X

##### EFFECTIVE DATE

This Plan shall be effective upon the adoption thereof by the Board of Directors of the Company subject to approval by the affirmative vote of the holders of a majority of the Company's shares present, or represented, and entitled to vote at a meeting of shareholders duly held in accordance with the laws of the State of California within twelve months following the date of the adoption of this Plan by the Board of Directors of the Company. Any stock option granted under this Plan prior to such approval shall be granted subject to such approval being so obtained.

SEVERANCE AGREEMENT

THIS AGREEMENT, dated \_\_\_\_\_ (the "Effective Date"), is made by and between Pacific Enterprises, a California corporation ("PE"), and \_\_\_\_\_ the "Executive").

WHEREAS, severance benefits have historically been provided to senior executives, officers and other key employees of PE and its subsidiaries and affiliates (PE and its subsidiaries and affiliates at any given time being referred to herein collectively as the "PE Group"); and

WHEREAS, the Executive is currently employed by PE and may from time to time during the term of this Agreement be employed by one or more other members of the PE Group (Executive's then PE Group employer hereinafter referred to as the "Employer"); and

WHEREAS, the Board of Directors of PE has determined that it is in the best interests of PE to institute formalized severance arrangements for certain of its executives, officers and key employees, including the Executive.

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

1. TERM OF AGREEMENT. Subject to the provisions of Section 12 hereof, the Term of this Agreement shall commence on the Effective Date and shall continue in effect through the third anniversary of the Effective Date; PROVIDED, HOWEVER, that on each anniversary of the Effective Date during the Term of this Agreement, the Term shall automatically be extended for one additional year unless, not later than 90 days prior to any such anniversary, the Executive or the Employer shall have given notice in accordance with Section 8 not to extend the Term.

2. COMPENSATION OTHER THAN SEVERANCE PAYMENTS

2.1 ACCRUED SALARY. If, during the Term, the Executive's employment with the Employer shall terminate for any reason, the Employer shall pay the Executive's full salary to the Executive through the Date of Termination (as defined in Section 4.2) at the rate in effect immediately prior to the Date of Termination or, if higher, the rate in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, together with all compensation and benefits payable to the Executive through the Date of Termination under the terms of the Employer's compensation and benefit plans, programs or arrangements as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason. For purposes of this Agreement, the transfer of Executive's employment from the Employer to another member of the PE Group shall not alone be deemed to constitute a termination of Executive's employment.

2.2 POST-TERMINATION BENEFITS. If, during the Term, the Executive's employment with the Employer shall terminate for any reason, the Employer shall pay to the Executive the Executive's normal post-termination compensation and benefits as such payments become due. Such post-termination compensation and benefits shall be determined under, and paid in accordance with, the Employer's retirement, insurance and other compensation or benefit plans, programs and arrangements as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the occurrence of the first event or circumstance constituting Good Reason.

3. ENTITLEMENT TO SEVERANCE BENEFITS.

3.1 BENEFITS. Subject to Sections 3.2 and 3.5 hereof, if, during the Term, the Executive's employment with the Employer is terminated (x) by the Employer other than (i) for Cause (as defined in Section 17(A)) or (ii) by reason of Executive's death or disability (as defined in the Employer's long term disability policy in effect from time to time) or (y) by the Executive for Good Reason (as defined in Section 17(B)), the Employer shall pay the Executive the amounts, and provide the Executive the benefits, described in this Section 3.1 ("Severance Payments") in addition to any payments and benefits to which the Executive is entitled under Section 2 hereof.



(A) LUMP SUM PAYMENT. In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination and in lieu of any cash severance payment otherwise payable to the Executive under any other severance plan, policy or arrangement maintained by the Employer, the Employer shall pay to the Executive a lump sum severance payment, in cash, equal to 1.5 times the Executive's annual base salary as in effect immediately prior to the Date of Termination or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason.

(B) CONTINUATION OF WELFARE BENEFITS. For the eighteen (18) month period immediately following the Date of Termination, the Employer shall arrange to provide the Executive and his or her dependents with life, accident and health insurance benefits substantially similar to those provided to the Executive and his or her dependents immediately prior to the Date of Termination or, if more favorable to the Executive, those provided to the Executive and his or her dependents immediately prior to the first occurrence of an event or circumstance constituting Good Reason, at no greater cost to the Executive than the cost of such benefits to the Executive immediately prior to such date or occurrence. Benefits otherwise receivable by the Executive pursuant to this Section 3.1(B) shall be reduced to the extent benefits of the same type are received by the Executive from another employer during the eighteen (18) month period following the Executive's termination of employment (and any such benefits received by the Executive shall be reported to the Employer by the Executive).

(C) ACCELERATED VESTING OF STOCK OPTIONS. All stock options held by Executive under any stock option or incentive plan maintained by any member of the PE Group shall immediately vest and become exercisable as of the Date of Termination, to be exercised in accordance with the terms of the applicable plan.

(D) ACCELERATED VESTING OF DIVIDEND EQUIVALENT RIGHTS ("DERS"). All DERS granted in connection with any stock option held by Executive under any stock option or incentive plan maintained by any member of the PE Group shall immediately vest and shall become payable at target upon exercise of the related stock option in accordance with the terms of the applicable plan.

(E) DEFERRED COMPENSATION PAYOUT. Payments to Executive under the Pacific Enterprises Deferred Compensation Plan for Key Management Employees (the "Deferred Compensation Plan") or any similar or successor plan maintained by any member of the PE Group shall be made without reduction in the interest rate applicable to Executive's account thereunder pursuant to Section VIII.B of the Deferred Compensation Plan or any similar or successor provision of the Deferred Compensation Plan or any similar or successor plan.

(F) FINANCIAL PLANNING. The Employer shall provide Executive with financial planning services and/or benefits for a period of one (1) year following the Date of Termination at a level consistent with the benefits provided under PE's financial planning program for executives and officers in effect as of the Effective Date.

(G) ACCRUED VACATION. The Employer shall provide Executive with a cash payment in an amount equal to Executive's accrued vacation benefits through the Date of Termination, such amount calculated on the basis of the salary used for purposes of the calculation in Section 3.1(A).

(H) OUTPLACEMENT SERVICES. The Employer shall provide the Executive with outplacement services suitable to the Executive's position for a period of eighteen (18) months or, if earlier, until the first acceptance by the Executive of an offer of employment with a subsequent employer, in an aggregate amount not to exceed \$30,000.

3.2 SECTION 280G LIMITATION ON BENEFITS.

(A) Notwithstanding any other provisions of this Agreement, in the event that any payment or benefit received or to be received by the Executive (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with (i) any member of the PE Group, (ii) any Person (as defined in Section 17(C)) whose actions result in a change in the ownership or effective control of any member of the PE Group or a substantial portion of its assets (a "Section 280G Event") or (iii) any Person affiliated with such Person) (all such payments and benefits, including the Severance Payments, being hereinafter called "Total Payments") would not be deductible (in whole or part), by any member of the PE Group or a Person making such payment or providing

such benefit as a result of section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), then, to the extent necessary to make such portion of the Total Payments deductible (and after taking into account any reduction in the Total Payments provided by reason of section 280G of the Code in such other plan, arrangement or agreement), the cash Severance Payments shall first be reduced (if necessary, to zero), and all other Severance Payments shall thereafter be reduced (if necessary, to zero): PROVIDED, HOWEVER, that the Executive may elect to have the non-cash Severance Payments reduced (or eliminated) prior to any reduction of the cash Severance Payments.

(B) For purposes of this limitation, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of section 280G(b) of the Code shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which, in the opinion of tax counsel ("Tax Counsel") reasonably acceptable to the Executive and selected by the accounting firm which was, immediately prior to the Section 280G Event, PE's independent auditor (the "Auditor"), does not constitute a "parachute payment" within the meaning of section 280G(b)(2) of the Code, including by reason of section 280G(b)(4)(A) of the Code, (iii) the Severance Payments shall be reduced only to the extent necessary so that the Total Payments (other than those referred to in clause (i) or (ii)) in their entirety constitute reasonable compensation for services actually rendered within the meaning of section 280G(b)(4)(B) of the Code or are otherwise not subject to disallowance as deductions by reason of section 280G of the Code, in the opinion of Tax Counsel, and (iv) the value of any noncash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code.

(C) If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding that, notwithstanding the good faith of the Executive, PE and the Employer in applying the terms of this Section 3.2, the Total Payments paid to or for the Executive's benefit are in an amount that would result in any portion of such Total Payments being subject to any excise tax imposed under Section 4999 of the Code (the "Excise Tax"), then, if such repayment would result in (x) no portion of the remaining Total Payments being

subject to the Excise Tax and (y) a dollar-for-dollar reduction in the Executive's taxable income and wages for purposes of federal, state and local income and employment taxes, the Executive shall have an obligation to pay the Employer upon demand an amount equal to the sum of (i) the excess of the Total Payments paid to or for the Executive's benefit over the Total Payments that could have been paid to or for the Executive's benefit without any portion of such Total Payments being subject to the Excise Tax; and (ii) interest on the amount set forth in clause (i) of this sentence at the rate provided in section 1274(b)(2)(B) of the Code from the date of the Executive's receipt of such excess until the date of such payment.

3.3 TIMING OF PAYMENTS. Subject to Section 3.5, the payments provided in subsections (A) and (G) of Section 3.1 shall be made not later than the fifth business day following the later of (i) the Date of Termination and (ii) the date the release referenced in Section 3.5 becomes irrevocable; PROVIDED, HOWEVER, that if the amounts of such payments, and the limitation on such payments set forth in Section 3.2, cannot be finally determined on or before such day, the Employer shall pay to the Executive on such day an estimate, as determined in good faith by the Employer, of the minimum amount of such payments to which the Executive is clearly entitled and shall pay the remainder of such payments (together with interest on the unpaid remainder (or on all such payments to the extent, the Employer fails to make such payments when due) at 120% of the rate provided in section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Employer to the Executive, payable on the fifth (5th) business day after demand by the Employer (together with interest at 120% of the rate provided in section 1274(b)(2)(B) of the Code). At the time that payments are made under this Agreement, the Employer shall provide the Executive with a written statement setting forth the manner in which such payments were calculated and the basis for such calculations including, without limitation, any opinions or other advice the Employer has received from Tax Counsel, the Auditor or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).

3.4 LEGAL FEES. The Employer shall pay to the Executive all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Executive in disputing in good

faith any issue arising under this Agreement relating to the termination of the Executive's employment or in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement, but in each case only to the extent Executive shall prevail as to the material issues raised in any such dispute.

3.5 RELEASE. Notwithstanding anything herein to the contrary, the Employer's obligation to make the payments provided for in this Section 3 is expressly made subject to and conditioned upon (i) Executive's prior execution of a release substantially in the form attached hereto as Exhibit A within 45 days after the applicable Date of Termination and (ii) Executive's non-revocation of such release in accordance with the terms thereof.

#### 4. TERMINATION PROCEDURES.

4.1 NOTICE OF TERMINATION. During the Term, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from the Employer to the Executive (or vice versa) in accordance with Section 8. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board of Directors of PE at a meeting of such board called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before such board) finding that, in the good faith opinion of such board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail.

4.2 DATE OF TERMINATION. "Date of Termination," with respect to any purported termination of the Executive's employment during the Term, shall mean the date specified in the Notice of Termination (which, in the case of a termination by the Employer, shall not be less than thirty (30) days (except in the case of a termination for Cause) and, in the case of a termination by the Executive, shall not be less than fifteen (15) days nor more than sixty (60) days, respectively, from the date such Notice of Termination is given).

5. NO MITIGATION. In the event of the termination of Executive's employment during the Term, the Executive shall not be required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Employer pursuant to Section 3. Further, the amount of any payment or benefit provided for in this Agreement (other than under Section 3.1(B)) shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Employer, or otherwise.

6. PERFORMANCE; ASSUMPTION OF AGREEMENT.

6.1 In the event that, during the Term, Executive shall be transferred to any Employer other than PE, PE shall take any and all action as may be necessary to cause such Employer to assume all of the duties, obligations and liabilities of the Employer hereunder.

6.2 In the event that, during the Term, (i) the Employer shall cease to be a member of the PE Group, or (ii) the PE Group undergoes a reorganization or other corporate restructuring such that it is then no longer appropriate, consistent with the intent of this Agreement, for PE to continue to discharge its duties, obligations and liabilities hereunder, PE shall, prior to the effectiveness of such event, take all such action as may be necessary to provide that the Employer or any parent of the Employer, as appropriate consistent with the intent of this Agreement (the "New Parent Entity"), shall assume all of the rights, duties, obligations and liabilities of "PE" hereunder, and in such event all references herein to the "PE Group" shall be deemed to include reference to the group consisting of such New Parent Entity and its then subsidiaries and affiliates. In this regard, it is the intent of this Agreement that, to the extent reasonably practicable, any entity responsible for discharging the duties, obligations and liabilities of "PE" hereunder should have a Board of Directors consisting of a majority of outside directors.

6.3 In addition to any obligations imposed by law upon any successor to the Employer, the Employer shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Employer to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Employer would be required to perform it if no such succession had

taken place, and the Employer shall obtain such assumption and agreement prior to the effectiveness of any such succession.

6.4 The failure of PE or the Employer, as applicable, to perform its respective obligations under Sections 6.1, 6.2 and 6.3, shall be a breach of this Agreement and shall entitle the Executive to compensation from the Employer in the same amount and on the same terms as the Executive would be entitled to hereunder if the Executive were to terminate the Executive's employment with the Employer for Good Reason, except that, for purposes of implementing the foregoing, the date on which the applicable event or succession becomes effective shall be deemed the Date of Termination.

7. SUCCESSORS. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than payments which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate.

8. NOTICES. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed, if to the Executive, to the address inserted below the Executive's signature on the final page hereof and, if to PE, to the address set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To Pacific Enterprises:

555 W. 5th Street  
Los Angeles, CA 90013-1011

P.O. Box 3249  
Los Angeles, CA 90051-1249

Attention: Chief Executive Officer

9. CONFIDENTIALITY; NON-SOLICITATION.

9.1 CONFIDENTIALITY. Executive acknowledges that in the course of his or her employment within the PE Group, he or she has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("Proprietary Information") of the PE Group; and Executive agrees that it would be extremely damaging to the PE Group, if such Proprietary Information were disclosed to a competitor of the PE Group or to any other person or corporation. Executive understands and agrees that all Proprietary Information has been divulged to Executive in confidence and further understands and agrees to keep all Proprietary Information secret and confidential without limitation in time. In view of the nature of Executive's employment and the Proprietary Information Executive has acquired during the course of such employment, Executive likewise agrees that the PE Group would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that any member of the PE Group shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other judicial relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to PE's Senior Vice President, Public Policy (or, if such position is vacant, PE's Chief Executive Officer); provided, that PE shall not unreasonably classify information as Proprietary Information.

9.2 NON-SOLICITATION OF EMPLOYEES. Executive recognizes that he or she possesses and will possess confidential information about other employees of the PE Group, including the Employer, relating to their education, experience, skills, abilities, compensation and benefits, and interpersonal relationships with customers of the PE Group. Executive recognizes that the information he or she possesses and will possess about these other employees is not generally known, is of substantial value to the PE Group in developing their business and in securing and retaining customers, and has been and will be acquired by him or her because of his or her business position within the PE Group. Executive agrees that, during the Term of this Agreement and for a period of one(1) year thereafter, he or she will not, directly or indirectly, solicit or recruit any employee of any member of the PE Group for the purpose of being employed by him or her or by any competitor of any member of the PE Group on whose behalf he or she is acting as an agent, representative or employee and that he or she will not convey any such confidential information or trade secrets about other employees of any member of the PE Group to any other person; provided, however, that it



shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of any member of the PE Group who has either first contacted Executive or regarding whose employment Executive has discussed with and received the written approval of PE's Vice President, Human Resources (or, if such position is vacant, PE's Chief Executive Officer), prior to making such solicitation or recruitment. In view of the nature of Executive's employment with the PE Group, Executive likewise agrees that the members of the PE Group would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that any such member shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other judicial relief available to them.

9.3 SURVIVAL OF PROVISIONS. The obligations contained in this Section 9 shall survive the termination or expiration of Executive's employment within the PE Group and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in this Section 9 is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

10. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer of PE or the Employer as may be specifically designated by its Board of Directors. No waiver by either party hereto at any time of any breach by the other party hereto of, or of any lack of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. This Agreement supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof which have been made by either party. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California. All references to sections of the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which the Executive has agreed. The obligations of the Executive, the Employer and PE under this

Agreement which by their nature may require either partial or total performance after the expiration of the Term (including, without limitation, those under Sections 2, 3 and 9 hereof) shall survive such expiration.

11. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

12. POOLING. In the event that the ultimate parent entity of the PE Group becomes party to a business combination transaction which is intended to qualify for "pooling of interests" accounting treatment and, but for one or more provisions of this Agreement, would so qualify, then (A) this Agreement shall, to the extent practicable, be interpreted so as to permit such accounting treatment, and (B) to the extent that the application of clause (A) of this Section 12 does not preserve the availability of such accounting treatment, then, to the extent that any provision of the Agreement would disqualify such business combination transaction as a "pooling" transaction (including, if applicable, the entire Agreement), such provision shall be null and void as of the Effective Date. All determinations under this Section 12 shall be made by the accounting firm whose opinion with respect to "pooling of interests" treatment is required as a condition to the consummation of such business combination transaction.

13. NO CONTRACT OF EMPLOYMENT. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing, the Executive shall not have any right to be retained in the employ of any member of the PE Group.

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

15. SETTLEMENT OF DISPUTES.

15.1 CLAIMS REVIEW PROCEDURES. All claims by the Executive for benefits under this Agreement shall be directed to and determined by the Board of Directors of PE and shall be in writing. Any denial by such board of a claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. Such board shall afford a reasonable opportunity to the Executive for a review of the decision denying a

claim and shall further allow the Executive to appeal to such board a decision of such board within sixty (60) days after notification by such board that the Executive's claim has been denied.

15.2 ARBITRATION. Except as provided in Section 9, any further dispute about the validity, interpretation, effect or alleged violation of this Agreement (an "arbitrable dispute") must be submitted to arbitration in Los Angeles, California. Arbitration shall take place before an experienced employment arbitrator licensed to practice law in such state and selected in accordance with the Model Employment Arbitration Procedures of the American Arbitration Association. Arbitration shall be the exclusive remedy for any arbitrable dispute. The arbitrator in any arbitrable dispute shall not have authority to modify or change the Agreement in any respect. Should any party to this Agreement pursue any arbitrable dispute by any method other than arbitration, the prevailing party shall be entitled to recover from the party initiating the use of such method all damages, costs, expenses and attorneys' fees incurred as a result of the use of such method. The arbitrator's decision and/or award shall be fully enforceable and subject to an entry of judgment by the Superior Court of the State of California for the County of Los Angeles.

16. INDEMNIFICATION. Each Employer shall indemnify and hold Executive harmless for acts and omissions in his or her capacity as an officer, director, agent or employee of such Employer to the maximum extent permitted under applicable law, and shall maintain Executive as a covered insured under any Director and Officer liability insurance policies following employment until the expiration of any applicable statutes of limitations.

17. DEFINITIONS. For purposes of this Agreement, the following terms shall have the meanings indicated below:

(A) "Cause" for termination by the Employer of the Executive's employment shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Employer (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 4.1) after a written demand for substantial performance is delivered to the Executive by the Board of Directors of PE, which demand specifically identifies the manner in which such board believes that the Executive has not substantially performed the Executive's duties, or (ii) Executive's commission of one or

more acts of dishonesty or moral turpitude (including but not limited to conviction of a felony). For purpose of clause (i) of this definition, no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the PE Group.

(B) "Good Reason" for termination by the Executive of the Executive's employment shall mean the occurrence, without the written consent of the Executive, of any one of the following acts by the Employer, or failures by the Employer to act, unless, in the case of any act or failure to act described in paragraph (I), (II), (III.B) or (VI) below, such act or failure to act is corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(I) the assignment to the Executive of any duties materially inconsistent with the range of duties and responsibilities appropriate to a senior executive/officer/key employee within the PE Group (such range determined by reference to past, current and reasonably foreseeable practices within the PE Group);

(II) a material reduction in the Executive's overall standing and responsibilities within the PE Group, but not including (i) a mere change in title or (ii) a transfer to another member of the PE Group that in either such case does not adversely affect the Executive's overall status within the PE Group.

(III) a reduction by the Employer in (A) the Executive's annual base salary as in effect on the date hereof or as the same may be increased from time to time or (B) Executive's aggregate compensation and benefits opportunities, in each case except for across-the-board reductions (or modifications of benefit plans) similarly affecting all similarly situated executives/officers/key employees (both of the PE Group and of any Person then in control of PE) of comparable rank with the Executive;

(IV) the relocation of the Executive's principal place of employment to a location outside the Southern California area; the Employer's requiring the Executive to be based anywhere other than such principal place of employment (or permitted relocation thereof); or a substantial increase in Executive's business travel obligations outside of

the Southern California area as of the Effective Date, other than such an increase that (i) arises in connection with extraordinary business activities of the Employer and (ii) is understood not to be a part of Executive's regular duties with the Employer;

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

(VI) any purported termination of the Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 4.1; for purposes of this Agreement, no such purported termination shall be effective.

The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

(C) "Person" shall have the meaning given in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended, as modified and used in Sections 13(d) and 14(d) thereof or any successor provisions.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first written above.

PACIFIC ENTERPRISES

By:

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Name:  
Title:

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EXECUTIVE

Address:

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(Please print carefully)

## INCENTIVE/RETENTION BONUS AGREEMENT

THIS AGREEMENT, dated \_\_\_\_\_ ; (the "Effective Date"), is made by and between Pacific Enterprises, a California corporation ("PE"), and (the "Participant").

WHEREAS, PE has entered into an agreement of merger (the "Merger") with San Diego Gas and Electric Company which, if consummated, would constitute a Business Combination (as hereinafter defined); and

WHEREAS, the Board of Directors of PE has determined that it is essential to the best interests of PE and its subsidiaries and affiliates (PE and its subsidiaries and affiliates at any given time being referred to herein collectively as the "PE Group") to foster the continued employment of key management personnel pending consummation of the Merger or any other Proposed Business Combination transaction; and

WHEREAS, the Participant is currently employed by PE and may from time to time during the term of this Agreement be employed by one or more other members of the PE Group (Executive's then PE Group employer hereinafter referred to as the "Employer"); and

WHEREAS, the Board of Directors of PE has determined that it is in the best interests of PE to institute an incentive bonus arrangement (the "Incentive Bonus") for certain of its executives, officers and key employees, including the Participant, to provide for their continued employment with PE and other members of the PE Group and to compensate them for the performance of additional services during the period prior to and following consummation of the Merger or any other Proposed Business Combination transaction.

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

1. DEFINED TERMS. The definitions of certain capitalized terms used in this Agreement are provided in the last Section hereof.

2. TERM OF AGREEMENT. Subject to the provisions of Section 14 hereof, the Term of this Agreement shall commence on the Effective Date and shall terminate on the first to occur of (i) the date that is 6 months following the date the Merger is consummated or (ii) the date that is 6 months following the date the Merger is formally abandoned; PROVIDED, HOWEVER, that if, prior to or within six months after the date the Merger is formally abandoned, another Proposed Business Combination is publicly announced, the Term of this Agreement shall be extended until the first to occur of (x) the date that is 6 months after the Merger or any other Proposed Business Combination is consummated or (y) the Merger and each other Proposed Business Combination is formally abandoned.

3. PAYMENT EVENTS. The Incentive Bonus shall become payable upon the first to occur of any of the following events during the Term of this Agreement (each such event, a "Payment Event"):

(A) A Business Combination is consummated within the Term of this Agreement and the Participant continues or transitions to employment with the Employer and remains employed with one or more members of the PE Group for a period of 6 months following the date of closing (the "Closing Date") of such Business Combination; or

(B) A Business Combination is consummated within the Term of this Agreement and the Participant's employment with the Employer is terminated prior to the expiration of 6 months following the Closing Date (x) by the Employer without Cause or (y) by the Participant for Good Reason, provided, that for purposes of this Agreement, the transfer of Executive's employment from the Employer to another member of the PE Group shall not alone be deemed to constitute a termination of Executive's employment; or

(C) Within the Term of this Agreement and prior to the consummation of a Business Combination, the Participant's employment with the Employer is terminated (x) by the Employer without Cause or (y) by the Participant for Good Reason, and a Business Combination is subsequently consummated within the Term of this Agreement.

If a Payment Event occurs, the Incentive Bonus shall be payable by the Employer to the Participant on the date that is 6 months following the Closing Date of such Business Combination; provided, however, that in the event the payment of the Incentive Bonus or any portion thereof in any fiscal year of the Employer would



otherwise fail to be deductible by the Employer in such fiscal year by reason of section 162(m) of the Code, the payment of the Incentive Bonus or such nondeductible portion thereof shall be deferred (with accrued interest at the 90 day Treasury Bill rate in effect from time to time) until the earliest such fiscal year or years in which the payment of the amounts so deferred (including interest) would not fail to be so deductible as determined by the Employer; and provided, further, that the Participant shall at all times be 100% vested in any amounts so deferred (including interest), but shall have no greater interest in any such amounts than that of any unsecured general creditor of the Employer. No Incentive Bonus shall be paid in the event the Participant's employment with the Employer is terminated prior to the occurrence of a Payment Event (x) by the Employer for Cause, (y) by the Participant without Good Reason or (z) by reason of the Participant's death or disability, or in the event no Business Combination is consummated within the Term of this Agreement.

4. AMOUNT OF INCENTIVE BONUS. Upon the occurrence of a Payment Event, the amount of the Incentive Bonus payable to the Participant hereunder shall be equal to \_\_\_\_\_ times the sum of the Participant's base salary plus annual target bonus as in effect as of the Effective Date or the Closing Date, whichever such sum is greater.

5. SECTION 280G LIMITATION ON BENEFITS.

(A) Notwithstanding any other provisions of this Agreement, in the event that any payment or benefit received or to be received by the Participant (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with (i) any member of the PE Group, (ii) any Person whose actions result in a change in the ownership or effective control of any member of the PE Group or a substantial portion of its assets (a "Section 280G Event") or (iii) any Person affiliated with such Person) (all such payments and benefits, including the Severance Payments, being hereinafter called "Total Payments") would not be deductible (in whole or part), by any member of the PE Group or a Person making such payment or providing such benefit as a result of section 280G of the Code, then, to the extent necessary to make such portion of the Total Payments deductible (and after taking into account any reduction in the Total Payments provided by reason of section 280G of the Code in such other plan, arrangement or agreement), the Incentive Bonus shall be reduced (if necessary, to zero).

(B) For purposes of this limitation, (i) no portion of the Total Payments the receipt or enjoyment of which the Participant shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of section 280G(b) of the Code shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which, in the opinion of tax counsel ("Tax Counsel") reasonably acceptable to the Participant and selected by the accounting firm which was, immediately prior to the Section 280G Event, PE's independent auditor (the "Auditor"), does not constitute a "parachute payment" within the meaning of section 280G(b)(2) of the Code, including by reason of section 280G(b)(4)(A) of the Code, (iii) the Severance Payments shall be reduced only to the extent necessary so that the Total Payments (other than those referred to in clauses (i) or (ii)) in their entirety constitute reasonable compensation for services actually rendered within the meaning of section 280G(b)(4)(B) of the Code or are otherwise not subject to disallowance as deductions by reason of section 280G of the Code, in the opinion of Tax Counsel, and (iv) the value of any noncash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code.

(C) If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding that, notwithstanding the good faith of the Participant, PE and the Employer in applying the terms of this Section 5, the Total Payments paid to or for the Participant's benefit are in an amount that would result in any portion of such Total Payments being subject to any excise tax imposed under Section 4999 of the Code (the "Excise Tax"), then, if such repayment would result in (x) no portion of the remaining Total Payments being subject to the Excise Tax and (y) a dollar-for-dollar reduction in the Participant's taxable income and wages for purposes of federal, state and local income and employment taxes, the Participant shall have an obligation to pay the Employer upon demand an amount equal to the sum of (i) the excess of the Total Payments paid to or for the Participant's benefit over the Total Payments that could have been paid to or for the Participant's benefit without any portion of such Total Payments being subject to the Excise Tax; and (ii) interest on the amount set forth in clause (i) of this sentence at the rate provided in section 1274(b)(2)(B) of the Code from the date of the Participant's receipt of such excess until the date of such payment.

6. LEGAL FEES. The Employer shall pay to the Participant all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Participant in disputing in good faith any issue arising under this Agreement relating to the termination of the Participant's employment or in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement, but in each case only to the extent the Participant shall prevail as to the material issues raised in any such dispute.

7. NOTICE OF TERMINATION. During the Term, any purported termination of the Participant's employment (other than by reason of death) shall be communicated by written Notice of Termination from the Employer to the Executive (or vice versa) in accordance with Section 10. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board of Directors of PE at a meeting of such board called and held for the purpose of considering such termination (after reasonable notice to the Participant and an opportunity for the Participant, together with the Participant's counsel, to be heard before such board) finding that, in the good faith opinion of such board, the Participant was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail.

8. PERFORMANCE: ASSUMPTION OF AGREEMENT.

8.1 In the event that, during the Term, Executive shall be transferred to any Employer other than PE, PE shall take any and all action as may be necessary to cause such Employer to assume all of the duties, obligations and liabilities of the Employer hereunder.

8.2 In the event that, during the Term, (i) the Employer shall cease to be a member of the PE Group, or (ii) the PE Group undergoes a reorganization or other corporate restructuring such that it is then no longer appropriate, consistent with the intent of this Agreement, for PE to continue to discharge its duties, obligations and liabilities hereunder, PE shall, prior to the effectiveness of such event, take all such action as may be necessary to provide that the Employer or any parent of the Employer, as appropriate consistent with the intent of this Agreement (the "New Parent Entity"), shall assume all of the rights, duties, obligations

and liabilities of "PE" hereunder, and in such event all references herein to the "PE Group" shall be deemed to include reference to the group consisting of such New Parent Entity and its then subsidiaries and affiliates. In this regard, it is the intent of this Agreement that the entity from time to time responsible for discharging the duties, obligations and liabilities of "PE" hereunder should have a Board of Directors consisting of a majority of outside directors.

8.3 In addition to any obligations imposed by law upon any successor to the Employer, the Employer shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Employer to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Employer would be required to perform it if no such succession had taken place, and the Employer shall obtain such assumption and agreement prior to the effectiveness of any such succession.

8.4 The failure of PE or the Employer, as applicable, to perform its respective obligations under Sections 8.1, 8.2 and 8.3, shall be a breach of this Agreement and shall be deemed to constitute a termination of Executive's employment without Cause for purposes of determining whether a Payment Event has occurred under Section 3.

9. SUCCESSORS. This Agreement shall inure to the benefit of and be enforceable by the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Participant shall die while any amount would still be payable to the Participant hereunder, if the Participant had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Participant's estate.

10. NOTICES. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed, if to the Participant, to the address inserted below the Participant's signature on the final page hereof and, if to PE, to the address set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To Pacific Enterprises:

555 W. 5th Street  
Los Angeles, CA 90013-1011

P.O. Box 3249  
Los Angeles, CA 90051-1249

Attention: Chief Executive Officer

11. CONFIDENTIALITY: NON-SOLICITATION.

11.1 CONFIDENTIALITY. The Participant acknowledges that in the course of his or her employment within the PE Group, he or she has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("Proprietary Information") of the PE Group; and the Participant agrees that it would be extremely damaging to the PE Group if such Proprietary Information were disclosed to a competitor of the PE Group or to any other person or corporation. The Participant understands and agrees that all Proprietary Information has been divulged to the Participant in confidence and further understands and agrees to keep all Proprietary Information secret and confidential without limitation in time. In view of the nature of the Participant's employment and the Proprietary Information the Participant has acquired during the course of such employment, the Participant likewise agrees that the PE Group would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that any member of the PE Group shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Participant from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other judicial relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to the PE's Senior Vice President, Public Policy (or, if such position is vacant, PE's Chief Executive Officer); provided, that PE shall not unreasonably classify information as Proprietary Information.

11.2 NON-SOLICITATION OF EMPLOYEES. The Participant recognizes that he or she possesses and will possess confidential information about other employees of the PE Group, including the Employer, relating to their education, experience, skills, abilities, compensation and benefits, and interpersonal relationships with customers of the PE Group. The Participant recognizes that the informa-

tion he or she possesses and will possess about these other employees is not generally known, is of substantial value to the PE Group in developing their business and in securing and retaining customers, and has been and will be acquired by him or her because of his or her business position within the PE Group. The Participant agrees that, during the Term of this Agreement and for a period of one (1) year thereafter, he or she will not, directly or indirectly, solicit or recruit any employee of any member of the PE Group for the purpose of being employed by him or her or by any competitor of any member of the PE Group on whose behalf he or she is acting as an agent, representative or employee and that he or she will not convey any such confidential information or trade secrets about other employees of any member of the PE Group to any other person; provided, however, that it shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of any member of the PE Group who has either first contacted the Participant or regarding whose employment the Participant has discussed with and received the written approval of PE's Vice President, Human Resources (or if such position is vacant, PE's Chief Executive Officer), prior to making such solicitation or recruitment. In view of the nature of the Participant's employment within the PE Group, the Participant likewise agrees that the members of the PE Group would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that any such member shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Participant from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other judicial relief available to them.

11.3 SURVIVAL OF PROVISIONS. The obligations contained in this Section 11 shall survive the termination or expiration of the Participant's employment within the PE Group and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in this Section 11 is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

12. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Participant and such officer of PE or the Employer as may be specifically designated by its Board of Directors. No waiver by either party hereto at any time of any breach by the other party hereto of, or of any lack of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or

conditions at the same or at any prior or subsequent time. This Agreement supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof which have been made by either party. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California. All references to sections of the Exchange Act of the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which the Participant has agreed. The obligations of the Participant, the Employer and PE under this Agreement which by their nature may require either partial or total performance after the expiration of the Term shall survive such expiration.

13. **VALIDITY.** The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. **POOLING.** In the event that the ultimate parent entity of the PE Group becomes party to a business combination transaction which is intended to qualify for "pooling of interests" accounting treatment and, but for one or more provisions of this Agreement, would so qualify, then (A) this Agreement shall, to the extent practicable, be interpreted so as to permit such accounting treatment, and (B) to the extent that the application of clause (A) of this Section 14 does not preserve the availability of such accounting treatment, then, to the extent that any provision of the Agreement would disqualify such business combination transaction as a "pooling" transaction (including, if applicable, the entire Agreement), such provision shall be null and void as of the Effective Date. All determinations under this Section 14 shall be made by the accounting firm whose opinion with respect to "pooling of interests" treatment is required as a condition to the consummation of such business combination transaction.

15. **NO CONTRACT OF EMPLOYMENT.** This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing, the Participant shall not have any right to be retained in the employ of any member of the PE Group.

16. **COUNTERPARTS.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

17. SETTLEMENT OF DISPUTES.

17.1 CLAIMS REVIEW PROCEDURES. All claims by the Participant for benefits under this Agreement shall be directed to and determined by the Board of Directors of PE and shall be in writing. Any denial by such board of a claim for benefits under this Agreement shall be delivered to the Participant in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. Such board shall afford a reasonable opportunity to the Participant for a review of the decision denying a claim and shall further allow the Participant to appeal to such board a decision of such board within sixty (60) days after notification by such board that the Participant's claim has been denied.

17.2 ARBITRATION. Except as provided in Section 11, any further dispute about the validity, interpretation, effect or alleged violation of this Agreement (an "arbitrable dispute") must be submitted to arbitration in Los Angeles, California. Arbitration shall take place before an experienced employment arbitrator licensed to practice law in such state and selected in accordance with the Model Employment Arbitration Procedures of the American Arbitration Association. Arbitration shall be the exclusive remedy for any arbitrable dispute. The arbitrator in any arbitrable dispute shall not have authority to modify or change the Agreement in any respect. Should any party to this Agreement pursue any arbitrable dispute by any method other than arbitration, the prevailing party shall be entitled to recover from the party initiating the use of such method all damages, costs, expenses and attorneys' fees incurred as a result of the use of such method. The arbitrator's decision and/or award shall be fully enforceable and subject to an entry of judgment by the Superior Court of the State of California for the County of Los Angeles.

18. DEFINITIONS. For purposes of this Agreement, the following terms shall have the meanings indicated below:

(A) "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.

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

(C) "Business Combination" shall mean the occurrence of any of the following events:



(1) Any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of PE (not including in the securities beneficially owned by such Person any securities acquired directly from PE or its Affiliates other than in connection with the acquisition by PE or its Affiliates of a business) representing 20% or more of the combined voting power of PE's then outstanding securities; or

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

(III) There is consummated a merger or consolidation of PE or any direct or indirect subsidiary of PE with any other corporation, other than (i) a merger or consolidation which would result in the voting of securities of PE outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of any member of the PE Group, at least 60% of the combined voting power of the securities of PE or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of PE (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of PE (not including the securities Beneficially Owned by such Person any securities acquired directly from PE or its Affiliates other than in connection with the acquisition by PE or its Affiliates of a business) representing 20% or more of the combined voting power of PE's then outstanding securities; or

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

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

(D) "Cause" for termination by the Employer of the Participant's employment shall mean (i) the willful and continued failure by the Participant to substantially perform the Participant's duties with the Employer (other than any such failure resulting from the Participant's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Participant pursuant to Section 7) after a written demand for substantial performance is delivered to the Participant by the Board of Directors of PE, which demand specifically identifies the manner in which such board believes that the Participant has not substantially performed the Participant's duties, or (ii) the Participant's commission of one or more acts of dishonesty or moral turpitude (including but not limited to conviction of a felony). For purposes of clause (i) of this definition, no act, or failure to act, on the Participant's part shall be deemed

"willful" unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that the Participant's act, or failure to act, was in the best interest of the PE Group.

(E) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(F) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

(G) "Good Reason" for termination by the Participant of the Participant's employment shall mean the occurrence, without the written consent of the Participant, of any one of the following acts by the Employer, or failures by the Employer to act, unless, in the case of any act or failure to act described in paragraph (I), (II), (III.B) or (VI) below, such act or failure to act is corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(I) the assignment of the Participant of any duties materially inconsistent with the range of duties and responsibilities appropriate to a senior executive within the PE Group (such range determined by reference to past, current and reasonably foreseeable practices within the PE Group);

(II) a material reduction in the Participant's overall standing and responsibilities within the PE Group, but not including (i) a mere change in title or (ii) a transfer to another member of the PE Group that in either such case does not adversely affect the Participant's overall status within the PE Group;

(III) a reduction by the Employer in (A) the Participant's annual base salary as in effect on the date hereof or as the same may be increased from time to time or (B) the Participant's aggregate compensation and benefits opportunities, in each case except for across-the-board reductions (or modifications to benefit plans) similarly affecting all similarly situated executives (both of the PE Group and of any Person then in control of PE) of comparable rank with the Participant;

(IV) the relocation of the Participant's principal place of employment to a location outside the Southern California area; the Employer's requiring the Participant to be based anywhere other than such principal place

of employment (or permitted relocation thereof); or a substantial increase in the Participant's business travel obligations outside of the Southern California area as of the Effective Date, other than such an increase that (i) arises in connection with extraordinary business activities of the Employer and (ii) is understood not to be part of the Participant's regular duties with the Employer;

(V) the failure by the Employer to pay to the Participant any portion of the Participant's current compensation or to pay to the Participant any portion of an installment of deferred compensation under any deferred compensation program of the Employer within thirty (30) days of the date such compensation is due;

(VI) any purported termination of the Participant's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 7; for purposes of this Agreement, no such purported termination shall be effective.

The Participant's right to terminate the Participant's employment for Good Reason shall not be affected by the Participant's incapacity due to physical or mental illness. The Participant's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

(H) "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) any member of the PE Group, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of any member of the PE Group, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of PE in substantially the same proportions as their ownership of stock of PE, or (V) a person or group as used in Rule 13d-1(b) under the Exchange Act.

(I) "Proposed Business Combination" shall mean any publicly announced transaction which, if consummated, would constitute a Business Combination.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first written above.

PACIFIC ENTERPRISES

By:

-----  
Name: Willis B. Wood, Jr.  
Title: Chairman and Chief Executive  
Officer

-----  
Participant

Address:

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-----  
-----

(Please print carefully)

GENERAL RELEASE

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

WHEREAS, you and the Company have previously entered into that certain Severance Agreement dated \_\_\_\_\_, 1996 (the "Severance Agreement"); and

WHEREAS, Section 3 of the Severance Agreement provides for the payment of severance benefits in the event of the termination of your employment under certain circumstances, subject to and conditioned upon your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

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

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

TWO: As a material inducement for the payment of benefits under Section 3 of that certain Severance Agreement between you and the Company, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims," shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to the you and to the Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, advisors, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives, attorneys and

advisors of such parent companies, divisions, subsidiaries and affiliates). and all persons acting by, through, under or in concert with any of them.

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

tal statute, regulation or ordinance which is similar to any of the statutes described in clauses (1) through (14).

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

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

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

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

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



lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

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

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

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

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

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

NINE:

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

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

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

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

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight days after its execution and return. Should you

nevertheless attempt to challenge the enforceability of this Agreement as provided in Paragraph TEN or, in violation of that Paragraph, through litigation, as a further limitation on any right to make such a challenge, you shall initially tender to the Company, by certified check delivered to the Company, all monies received pursuant to Section 3 of the Severance Agreement, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled. In the event the Company does not accept such offer, the Company shall so notify you, and shall place such monies in an interest-bearing escrow account pending resolution of the dispute between you and the Company as to whether or not this Agreement shall be set aside and/or otherwise rendered voidable or unenforceable. Additionally, any consulting agreement then in effect between you and the Company shall be immediately rescinded with no requirement of notice.

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

To Company: Pacific Enterprises/Southern California Gas Company  
c/o Pacific Enterprises  
555 West Fifth Street  
Los Angeles, CA 90013-1011

Attn: Joyce Rowland

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

shall not be effective and enforceable and you will not receive payments or benefits under Section 3 of the Severance Agreement.

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

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

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

SEVENTEEN: This Agreement may be executed in counterparts.

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

DATED: \_\_\_\_\_

\_\_\_\_\_

DATED: \_\_\_\_\_

\_\_\_\_\_

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

This section includes management's analysis of Pacific Enterprises' (the Company or Parent) operating results for the years 1994 through 1996, as well as its capital resources, liquidity and financial position. This section also focuses on the major factors expected to influence future operating results and discusses future investment and financing plans. Management's discussion and analysis should be read in conjunction with the Consolidated Financial Statements.

Pacific Enterprises is a Los Angeles based utility holding company whose primary subsidiary is Southern California Gas Company (SoCalGas), the nation's largest natural gas distribution utility, serving 4.8 million meters throughout most of southern and part of central California. SoCalGas delivers natural gas and related services to residential and small commercial and industrial customers and stores and transports natural gas for electric generation and wholesale customers. The Company's Energy Management Services (EMS) business unit is engaged in interstate and offshore natural gas transmission to serve its utility operations, alternate energy development, centralized heating and cooling for large building complexes and energy management services. Through Pacific Enterprises International (PEI), the Company invests in international energy utility operations.

During 1996, the Company announced an agreement to combine its operations with Enova Corporation (Enova), the parent company of San Diego Gas and Electric Company. This strategic merger of equals will be a tax-free transaction accounted for as a pooling of interests. The combination was approved by the shareholders of both Companies on March 11, 1997. Completion of the combination remains subject to approval by regulatory and governmental agencies including the California Public Utilities Commission. To pursue opportunities in unregulated energy markets pending the completion of the combination, the Company and Enova have formed a joint venture to market energy products. For further discussion see Note 1 of Notes to Consolidated Financial Statements.

## CAPITAL RESOURCES AND LIQUIDITY

The Company's primary sources and uses of cash during the last three years are summarized in the following condensed statement of cash flows:

## SOURCES AND (USES) OF CASH

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
Operating Activities	\$ 608	\$ 698	\$ 255
Capital Expenditures	(204)	(240)	(249)
Foreign Investments	(50)		
Financing Activities:			
Long-Term Debt	(97)	(207)	226
Short-Term Debt	29	(44)	11
Sale of			
Common Stock	8	6	7
Repurchase of			
Common Stock	(24)		
Redemption of			
Preferred Stock	(210)	(30)	(40)
Common and			
Preferred			
Dividends	(123)	(121)	(116)
Total Financing			
Activities	(417)	(396)	88
Other	(32)	2	41
Increase (Decrease)			
in Cash and Cash			
Equivalents	\$ (95)	\$ 64	\$ 135

## CASH FLOWS FROM OPERATING ACTIVITIES

The decrease in cash provided from operating activities to \$608 million in 1996 from \$698 million in 1995 is primarily due to lower noncore revenues and lower amounts received from undercollected regulatory balancing accounts, partially offset by favorable settlements as described in SoCalGas operations below.

The increase in cash provided from operating activities of \$443 million in 1995 from 1994 is primarily due to a payment of \$391 million for the settlement of gas contract issues made in 1994 and increased earnings of SoCalGas as described later.

## CAPITAL EXPENDITURES

Capital expenditures primarily represent rate base investment at SoCalGas. The table below summarizes capital expenditures by utility plant classification:

[GRAPH]

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
SoCalGas:			
Distribution	\$ 124	\$ 126	\$ 129
Transmission	24	19	24
Storage	5	19	22
Other	44	67	70
Total SoCalGas	197	231	245
Other	7	9	4
Total	\$ 204	\$ 240	\$ 249

Capital expenditures for 1996 are \$36 million lower than 1995, primarily due to the completion in early 1996 of a new customer information system which increased SoCalGas' responsiveness to customer needs and reduced operating costs, and less capital required for storage due to completion of repairs from the 1994 Northridge earthquake.

The decrease in expenditures of \$9 million in 1995 was due primarily to a reduction in the investment requirements for connecting new customers.

Capital expenditures are estimated to be \$210 million in 1997.

## FOREIGN INVESTMENTS

Foreign investments include an acquisition by PEI of a 12.5% interest in two utility holding companies that control natural gas distribution utilities in Argentina, and an investment in the Mexicali natural gas distribution system. The acquisition price of the Argentina investment was \$48.5 million, and funds invested in the Mexicali project totaled \$1 million through the end of 1996.

## LONG-TERM DEBT

In 1996, cash was used for a \$67 million redemption of the Swiss Franc Bonds, and repayment of \$79 million of debt issued to finance the Comprehensive Settlement (see Note 4 of Notes to Consolidated Financial Statements). This was partially offset by cash provided from the issuance of \$75 million in Medium Term Notes.

Cash was used in 1995 primarily for the repayment of short- and long-term debt, including \$65 million of debt related to the Comprehensive Settlement.

Cash was provided in 1994 from the issuance of long-term debt for financing the Comprehensive Settlement.

## STOCK REDEMPTION

The Company and SoCalGas redeemed \$110 million and \$100 million, respectively of variable dividend rate preferred stocks in 1996. The Company recorded a \$2.4 million nonrecurring reduction to consolidated earnings to reflect the write-off of the original issuance underwriting discount related to this preferred stock. In 1995 and 1994, \$30 million and \$40 million, respectively, of preferred stock of the Company was redeemed.

In 1996, the Board of Directors authorized a common share repurchase program of up to 4.25 million shares of the Company's common stock, representing approximately 5% of the then outstanding shares. As of December 31, 1996, the Company repurchased 816,000 shares under this program. An additional 74,000 shares were repurchased in January 1997.

The Company has temporarily suspended the repurchase program during the solicitation of approval by shareholders of the combination with Enova and expects to resume the program in 1997. Prior to the completion of the combination, the repurchase program will be terminated.

## DIVIDENDS

In 1996, the Company paid dividends of \$118 million on common stock and \$5 million on preferred stock for a total of \$123 million. This compares to \$121 million in 1995 and \$116 million in 1994. The increase in 1996 was due to the increase in the weighted average of common shares outstanding during the year, and the increase in the quarterly common stock dividend rate in the second quarter of 1996 partially offset by lower preferred dividends.

The quarterly dividend rate for common stock was increased from \$.30 per share to \$.32 per share in the second quarter of 1994, to \$.34 per share in the second quarter of 1995, and to \$.36 per share in the second quarter of 1996.

## CAPITALIZATION

As of the end of 1996, the debt to capitalization ratio had increased to 52% from 50% in 1995. The increase is due to a reduction in equity from the redemption of the preferred stock and repurchases of common stock, partially offset by the repayment of debt.

By the close of 1995, the debt to capitalization ratio had decreased to 50% from 55% in 1994 primarily due to increases in common equity from 1995 income and the repayment of debt.

During 1993, the Company completed the sale of discontinued operations and issued 8 million shares of common stock. The proceeds from the asset sales, including tax benefits, together with cash provided by continuing operations, were used to repay essentially all of the Parent Company's bank debt. As a result, the debt to capitalization ratio improved to 54% at the end of 1993 from 67% in 1992.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents were \$256 million at December 31, 1996, of which \$234 million is at the Parent. This cash is available for investment in new energy-related domestic and international projects, repurchase of common and preferred stock, the retirement of debt and other corporate purposes.

The Company anticipates that cash required in 1997 for capital expenditures, dividends, debt payments and merger related costs will be provided by cash generated from operating activities and existing cash balances.

In addition to cash from ongoing operations, the Parent and SoCalGas have available multi-year credit agreements. The SoCalGas agreements provide backing for its commercial paper program. At December 31, 1996, all bank lines of credit were unused (see Note 8 of Notes to Consolidated Financial Statements).

## RESULTS OF CONSOLIDATED OPERATIONS

The following table is presented to enhance understanding of the reported results:

[GRAPH]

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
Reported earnings per share	\$ 2.37	\$ 2.12	\$ 1.95
Nonrecurring events:			
Contract settlement charges		.05	
Litigation settlement benefits	(.19)		
Merger related expenses	.05		
Unamortized discount	.03		
Normalized earnings per share	\$ 2.26	\$ 2.17	\$ 1.95

## 1996 COMPARED TO 1995

Net income for 1996 increased to \$203 million, or \$2.37 per share of common stock, compared to net income of \$185 million, or \$2.12 per share in 1995.

Net income for 1996 includes net benefits of \$12.1 million from nonrecurring items. Nonrecurring events in 1996 include favorable litigation settlements totaling \$16.1 million, after-tax, or \$.19 per share. One settlement is from gas producers for \$5.6 million, after-tax, for damages to SoCalGas and customer equipment as a result of impure gas supplies delivered to SoCalGas and the other reflects the resolution of environmental insurance claims which benefited earnings by \$10.5 million, after-tax. These were partially offset by merger related expenses of \$4 million, after tax. Also having a nonrecurring impact was a \$2.4 million reduction to earnings per share to reflect original issuance underwriting discounts on redeemed preferred stock.

Net income was also favorably impacted by lower operating and maintenance expenses at SoCalGas due to continued efforts to reduce costs of utility service and a reduction in interest expense. Interest expense was reduced from its 1995 level as a result of the lower long-term debt



balance maintained throughout the year and the redemption of \$67 million of Swiss Franc bonds. This was partially offset by higher general and administrative expenses at PEI and EMS, as well as a reduction in the authorized return on equity for SoCalGas to 11.6% from 12% and lower noncore revenues as a result of decreased UEG transportation volumes.

Additionally, 1995 results included a nonrecurring charge of \$3.8 million, after-tax, for the resolution of certain power sales contract issues at EMS.

[GRAPH]

#### 1995 COMPARED TO 1994

Net income for 1995 increased to \$185 million, or \$2.12 per share, from \$172 million, or \$1.95 per share, in 1994. The increase of \$13 million during 1995 is due primarily to the increase in the authorized rate of return on common equity at SoCalGas from 11% in 1994 to 12% in 1995 and lower operating expenses, which reflect savings from the Company's reduction in staffing levels and other expense reductions.

#### SOCALGAS OPERATIONS

To fully understand the operations and financial results of SoCalGas it is important to understand the ratemaking procedures that SoCalGas is required to follow.

#### RATEMAKING PROCEDURES

SoCalGas is regulated by the California Public Utilities Commission (CPUC). It is the responsibility of the CPUC to determine that utilities operate in the best interest of the customer with the opportunity to earn a reasonable return on investment.

In a general rate case, the CPUC establishes a base margin, which is the amount of revenue authorized to be collected from customers to recover authorized operating expenses (other than the cost of gas), depreciation, interest, taxes and return on rate base. General rate cases are typically filed every three years. On June 1, 1995, SoCalGas filed a "Performance Based Regulation" (PBR) application with the CPUC which would replace the general rate case and certain other regulatory proceedings. If approved, PBR would be implemented during the last half of 1997. For a further discussion of PBR, see Factors Influencing Future Performance-Performance Based Regulation.

The CPUC annually adjusts rates for years between general rate cases to reflect the changes in rate base and the effects of inflation as adjusted by a productivity improvement factor. No adjustment for inflation was made to rates in 1997 pending the CPUC's ruling on SoCalGas' PBR application. Current rates will remain in effect at SoCalGas until PBR is implemented. Separate proceedings are held annually to review SoCalGas' cost of capital, including return on common equity, interest costs and changes in capital structure.

Biennial cost allocation proceedings (BCAP) adjust rates to reflect variances in the cost of gas and core customer demand from estimates adopted in a general rate case. The mechanism substantially eliminates the effect on core income of variances in core market demand and gas costs subject to the limitations of the Gas Cost Incentive Mechanism (GCIM) and the Comprehensive Settlement (see Note 4 of Notes to Consolidated Financial Statements).

GCIM is a pilot program, which compares SoCalGas' cost of gas with the average market price of 30-day firm spot supplies delivered to the SoCalGas service area and permits full recovery of all costs within a tolerance band above that average. The cost of purchases above the tolerance band or savings from purchases below the average market price are shared equally between customers and shareholders.

In the first year of the GCIM (April 1994-March 1995), SoCalGas' cost of gas was within the tolerance band and all gas costs were passed on to the customer.

In the second year of the GCIM (April 1995-March 1996), the cost of gas was below the average market price. A filing has been made with the CPUC requesting a reward to shareholders which will be recognized in income when a final CPUC decision is issued.

SoCalGas is currently in discussions with the CPUC to extend GCIM beyond its third year (see Note 4 of Notes to Consolidated Financial Statements).

## MARKETS

SoCalGas markets are comprised of core customers and noncore customers. Core customers consist of approximately 4.8 million meters (4.6 million residential and 200,000 small commercial and industrial meters). The noncore market consists of approximately 1,600 meters which includes nine utility electric generation (UEG), three wholesale, and the remainder are large commercial and industrial customers. Most noncore customers procure their own gas supply (which is delivered through the SoCalGas distribution system) rather than purchase gas from SoCalGas. Although the revenues from transportation throughput are less than for gas sales, SoCalGas generally earns the same margin whether it buys the gas and sells it to the customer or transports gas already owned by the customer. For 1997, approximately 89% of the total margin authorized is contributed by the core market, with 11% contributed by the noncore market.

Under current utility ratemaking policies, the return that SoCalGas is authorized to earn is the product of an authorized rate of return on rate base and the amount of rate base. Rate base consists primarily of net investment in utility plant. Thus, SoCalGas' earnings are affected by changes in the authorized rate of return on rate base, the change in the authorized rate base and by SoCalGas' ability to control expenses and investment in rate base within the amounts authorized by the CPUC in setting rates. SoCalGas refunds or collects in the future the amounts by which certain defined costs vary from the amounts authorized by the CPUC in the rate case or other regulatory proceedings. Also, variations in core revenues from estimates adopted by the CPUC in establishing rates are refunded or collected through a balancing account mechanism. Through balancing account treatment, SoCalGas is allowed to fully recover amounts recorded as core deferred costs or core revenue shortfalls currently or in the future. Under terms of the Comprehensive Settlement, SoCalGas is at risk for deliveries to the noncore market.

### 1994-1996 RESULTS

Key financial and operating data for SoCalGas are highlighted in the following table.

[GRAPH]

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
Operating revenues	\$ 2,422	\$ 2,279	\$ 2,587
Cost of gas	\$ 923	\$ 737	\$ 992
Operating expenses	\$ 725	\$ 760	\$ 827
Income from operations before interest and taxes	\$ 431	\$ 451	\$ 424
Net income (after preferred dividends)	\$ 193	\$ 203	\$ 180
Authorized return on rate base	9.42%	9.67%	9.22%
Authorized return on common equity	11.60%	12.00%	11.00%
Weighted average rate base	\$ 2,777	\$ 2,766	\$ 2,862
Growth (decline) in weighted average rate base over prior period	.4%	(3.4)%	3.4%

1996 COMPARED TO 1995 SoCalGas' operating revenues increased \$143 million in 1996 compared to 1995. The increase is primarily due to an increase in the average unit cost of gas in 1996 compared to 1995. Since this cost is recoverable in rates (subject to GCIM), it is also recorded as revenues, and resulted in increased revenues in 1996 (see Note 2 of Notes to Consolidated Financial Statements for a discussion of related accounting policies).

The increase in revenue was also generated by demand from refinery customers who required 21 Bcf more gas in 1996 than 1995. The increase in revenue was partially offset by a decrease in UEG revenues due to a reduction in volumes transported for UEG's as a result of an abundance of less expensive hydro-electricity resulting from high levels of rain and snowfall last winter.

SoCalGas' cost of gas distributed increased \$186 million in 1996 compared to 1995 due primarily to an increase in the average unit cost of gas. The average commodity cost of gas purchased by SoCalGas, excluding fixed charges for 1996, was \$1.88 per thousand cubic feet, compared to \$1.42 per thousand cubic feet in 1995.

[GRAPH]

SoCalGas' operating expenses decreased \$35 million in 1996 compared to 1995. The decrease is primarily due to the nonrecurring favorable settlements from gas producers and environmental insurance claims totaling \$28 million and reflects savings as a result of SoCalGas' continued improvements in efficiency and management's close control of expenses.

Net income after preferred dividends was \$193 million in 1996 compared to \$203 million in 1995. The decline in earnings at SoCalGas was primarily due to a nonrecurring non-cash charge of \$26.6 million resulting from continuing developments in the CPUC's restructuring of the electric utility industry. The charge was needed because SoCalGas anticipates throughput to noncore UEG customers will be below the levels projected in 1993 at the time of the Comprehensive Settlement (see Note 4 of Notes to Consolidated Financial Statements). Consequently, SoCalGas believes it will not realize the remaining revenue enhancements that were applied to offset the costs of the Comprehensive Settlement. In connection with the 1992 quasi-reorganization, the Company established a reserve for this issue and therefore this charge had no effect on consolidated net income. The decline in 1996 earnings was partially offset by the effects of the nonrecurring favorable settlements and lower operating costs.

- 1995 COMPARED TO 1994 The decrease in operating revenue of \$308 million in 1995 reflects a reduction in the average unit cost of gas and a decrease in noncore volumes transported. SoCalGas cost of gas distributed decreased \$255 million in 1995. The average commodity cost of gas purchased by SoCalGas, excluding fixed charges, for 1995 was \$1.42 per thousand cubic feet, compared to \$1.68 per thousand cubic feet in 1994.

SoCalGas' operating expenses decreased \$67 million in 1995. The decrease primarily reflects savings from cost reduction efforts in 1995 and nonrecurring expenses in 1994. Operating costs for 1994 included expenses resulting from the January 1994 earthquake and expenses related to a discontinued capital project.

Net income after preferred dividends increased to \$203 million in 1995 from \$180 million in 1994. The increase was primarily due to the increase in the authorized return on equity to 12% from 11% in 1994 and lower operating expenses from cost reduction efforts.

- ACHIEVED AND AUTHORIZED RATE OF RETURN SoCalGas has achieved or exceeded the rate of return on rate base authorized by the CPUC for 14 consecutive years. In 1996, SoCalGas achieved a 10.31% return on rate base compared to a 9.42% authorized return and a 13.59% return on equity compared to a 11.6% authorized return. The improved returns were primarily due to lower operating costs as a result of increased operating efficiencies and the favorable settlements.

In 1995, SoCalGas achieved a 10.84% return on rate base compared to a 9.67% authorized return and a 13.89% return on equity compared to an 12% authorized return. The improved returns were primarily due to lower operating costs as a result of reduced staffing levels and other cost reduction efforts.

In 1997, SoCalGas is authorized to earn a 9.49% return on rate base and 11.6% on equity. Rate base is expected to remain at approximately the same level as 1996.

#### OPERATING RESULTS

The table on the following page summarizes the components of SoCalGas' throughput and rates charged to customers for the past three years. Rates include the customer portion of the Comprehensive Settlement (see Note 4 of Notes to Consolidated Financial Statements). The amount included in rates for 1996, 1995, and 1994 was \$90 million, \$84 million, and \$119 million, respectively.

Throughput, the total gas sales and transportation volumes moved through SoCalGas' system, decreased in 1996 as a result of lower demands, primarily by UEG customers. This was as a result of an abundance of inexpensive hydro-electricity resulting from high levels of precipitation last winter reducing the gas demands of UEG's. The decrease in throughput in 1995 from 1994 levels was also the result of lower demands, primarily by UEG customers. As previously described under ratemaking procedures, SoCalGas is not at risk for variances in volumes delivered to the core market. Variances in volumes delivered to the noncore market directly impact the company's results of operations.

[GRAPH]

(Dollars in millions, volume in billion cubic feet)	Gas Sales		Transportation & Exchange		Total	
	Throughput	Revenue	Throughput	Revenue	Throughput	Revenue
<b>1996:</b>						
Residential	233	\$ 1,603	3	\$ 10	236	\$ 1,613
Commercial/Industrial	82	473	297	236	379	709
Utility Electric Generation			139	70	139	70
Wholesale			130	70	130	70
Total in Rates	315	\$ 2,076	569	\$ 386	884	2,462
Balancing and Other						(40)
Total Operating Revenues						\$ 2,422
<b>1995:</b>						
Residential	237	\$ 1,547	2	\$ 7	239	\$ 1,554
Commercial/Industrial	97	546	267	206	364	752
Utility Electric Generation			205	104	205	104
Wholesale	4	7	125	55	129	62
Total in Rates	338	\$ 2,100	599	\$ 372	937	2,472
Balancing and Other						(193)
Total Operating Revenues						\$ 2,279
<b>1994:</b>						
Residential	254	\$ 1,704	2	\$ 9	256	\$ 1,713
Commercial/Industrial	100	592	258	207	358	799
Utility Electric Generation			260	118	260	118
Wholesale	8	21	138	77	146	98
Total in Rates	362	\$ 2,317	658	\$ 411	1,020	2,728
Balancing and Other						(141)
Total Operating Revenues						\$ 2,587

#### FACTORS INFLUENCING FUTURE PERFORMANCE

Performance of the Company in the near future will primarily depend on the results of SoCalGas. Because of the ratemaking and regulatory process as well as the changing energy marketplace, there are several factors that will influence future financial performance. These factors are summarized below.

- **ALLOWED RATE OF RETURN** For 1997, SoCalGas is authorized to earn a rate of return on rate base of 9.49% and a rate of return on common equity of 11.6%, compared to 9.42% and 11.6%, respectively, in 1996. The CPUC also authorized an increase in the common equity component of SoCalGas capital structure to 48.0% in 1997 from 47.4% in 1996. The 60 basis point increase in the equity component could potentially add \$2 million to earnings in 1997. Rate base is expected to remain at approximately the same level as in 1996.
- **PERFORMANCE BASED REGULATION** Under current ratemaking policies, SoCalGas net income and cash flow will be determined primarily by the allowed rate of return on common equity, changes to authorized rate base, noncore market pricing, the variance in gas volumes delivered to noncore customers from CPUC-adopted forecast deliveries and the ability of management to control expenses and investment in line with the amounts authorized by the CPUC to be collected in rates.

SoCalGas has filed a PBR application with the CPUC to replace the general rate case and certain other traditional regulatory proceedings. PBR, if approved, would allow SoCalGas to be more responsive to consumer interests and compete more effectively in contestable markets. Key elements of this proposal included a permanent reduction in base rates of \$62 million. As a result of discussions in late 1996, SoCalGas has agreed with the staff of the CPUC to a rate reduction of \$110 million. Other elements of PBR include an indexing mechanism that would limit future rate increases to the inflation rate less a productivity factor and rate refunds to customers if service

quality were to deteriorate. This new approach would maintain cost based rates but would link financial performance with changes in productivity. Although PBR in the near term could result in increased earnings volatility, SoCalGas would have the opportunity to improve financial performance over the long-term to the extent it is able to reduce expenses, increase gas deliveries and generate profits from new products and services.

Under the PBR proposal, SoCalGas would be at risk for certain changes in interest rates and cost of capital, variances in core volumes not caused by weather, and achievement of productivity improvements. SoCalGas believes PBR will permit the continued applicability of Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71) to account for SoCalGas' operations. However, the terms of PBR ultimately authorized by the CPUC may contain elements that could result in SoCalGas not meeting all the criteria for continued application of SFAS 71 (see Note 2 of Notes to Consolidated Financial Statements).

- **MANAGEMENT CONTROL OF EXPENSES AND INVESTMENT** Over the past 14 years, management has been able to control operating expenses and investment within the amounts authorized to be collected in rates and intends to continue to do so.
- **ELECTRIC INDUSTRY RESTRUCTURING** Demand for natural gas by UEG customers is sensitive to the price and availability of electric power generated in areas outside SoCalGas' service territory and available for purchase by customers.

On December 20, 1995, the CPUC issued a final decision to restructure California electric utility regulation effective January 1, 1998. On September 23, 1996, California Assembly Bill 1890, a comprehensive bill regarding the electric restructuring, was signed into law. Implementation of portions of the plan are expected to need federal administrative approval. Future volumes of natural gas SoCalGas transports for electric utilities may be adversely affected by increased use of electricity generated by producers outside SoCalGas' service territory. The electric industry restructuring may also result in a reduction of electric rates to core customers, but it is unlikely to overcome the entire cost advantage of natural gas for existing uses.

The Company has adopted Statement of Financial Accounting Standards, No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121) and evaluated its impact, including the potential effect of the electric industry restructuring. Although the Company believes that the volume of gas transported by SoCalGas may be adversely impacted by the electric industry restructuring, it is not anticipated that it would result in an impairment of assets as defined in SFAS 121 because the expected undiscounted future cash flows from SoCalGas' investment in its gas transportation infrastructure is greater than its carrying amount.

- **NONCORE BYPASS** SoCalGas' throughput to enhanced oil recovery (EOR) customers in the Kern County area decreased significantly since 1992 because of the bypass of SoCalGas' system by competing interstate pipelines. The decrease in revenues from EOR customers is subject to full balancing account treatment, except for a 5% incentive to SoCalGas, and therefore, does not have a material impact on SoCalGas' earnings.

Bypass of other markets may also occur, and SoCalGas is fully at risk for reduction in non-EOR, noncore volumes due to bypass. However, significant additional bypass would require construction of additional facilities by competing pipelines. SoCalGas is continuing to reduce its costs to maintain competitive rates to transportation customers.

- **NONCORE THROUGHPUT** SoCalGas' earnings from noncore markets may be adversely impacted if gas throughput to its noncore customers varies from estimates adopted by the CPUC in establishing rates. There is a continuing risk that an unfavorable variance in noncore volumes can result from external factors such as weather, electric restructuring, the increased use of hydro-electric power, competing pipeline bypass of SoCalGas' system and a downturn in general economic conditions. In addition, many noncore customers are especially sensitive to the price relationship between natural gas and alternate fuels, as they are capable of readily switching from one fuel to another, subject to air quality regulations. SoCalGas is at risk for the lost revenue.

Through July 31, 1999, any favorable earnings effect of higher revenues resulting from higher throughput to noncore customers has been eliminated as a result of the Comprehensive Settlement (see Note 4 of Notes to Consolidated Financial Statements).

- **EXCESS INTERSTATE PIPELINE CAPACITY** SoCalGas has exercised its step-down option on both the El Paso and Transwestern Interstate Pipeline Systems by 300 million cubic feet per day and 450 million cubic feet per day, respectively, thereby reducing its firm interstate capacity obligation to 1.45 Bcf per day. SoCalGas' requirements to meet the demand of the core market is approximately 1.05 Bcf per day, or 400 MMcf per day below its capacity obligation. SoCalGas has entered into a FERC approved settlement with Transwestern, and an El Paso settlement is currently pending before the FERC. Both settlements define the amount of the unsubscribed capacity costs that is to be recovered from SoCalGas and other remaining firm service customers, thus reducing SoCalGas exposure to higher annual reservation charges. Under existing regulation in California, unsubscribed capacity costs are included in customer rates.

The Company believes that these settlements will not have a significant impact on liquidity or on results of operations as a result of the requirement to subsidize unsubscribed pipeline costs. The settlements result in a reduction in the costs that SoCalGas could possibly have had to pay in the future as a result of unsubscribed pipeline capacity. The inclusion of the unsubscribed pipeline cost in rates may impact SoCalGas' ability to compete in highly contested markets. However, SoCalGas does not believe it will have a significant impact on volumes transported.

- **ENVIRONMENTAL MATTERS** SoCalGas' operations and those of its customers are affected by a growing number of environmental laws and regulations. These laws and regulations affect current operations as well as future expansion. Increasingly complex administrative and reporting requirements of environmental agencies applicable to commercial and industrial customers utilizing natural gas are not generally required by those using electricity. However, anticipated advancement in natural gas technologies should enable gas equipment to remain competitive with alternate energy sources. Environmental laws also require clean up of facilities no longer in use. Because of current and expected rate recovery, SoCalGas believes that compliance with these laws will not have a significant impact on the Company's consolidated results of operations or financial position (see Note 6 of Notes to Consolidated Financial Statements).
- **CALIFORNIA ECONOMY** Growth in SoCalGas markets is largely dependent on the health and expansion of the California economy. SoCalGas added approximately 44,000 new meters in 1996. This represents a growth rate of approximately 1%, which is expected to continue for 1997.

#### ENERGY MANAGEMENT SERVICES

EMS, consists of a number of operations including an interstate pipeline subsidiary, a subsidiary which operates and develops alternate energy facilities as well as centralized heating and cooling plants, an unregulated subsidiary which markets natural gas, and a subsidiary which provides energy products and services.

Key financial data for the EMS business unit are highlighted in the following table.

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
Operating revenue	\$ 291	\$ 212	\$ 463
Operating expenses	\$ 292	\$ 213	\$ 452
Income (loss) from operations before interest and taxes	\$ (1)	\$ (1)	\$ 11
Net income	\$ 6	\$ 8	\$ 10

Pacific Energy (PE) develops and operates alternate energy facilities including geothermal, hydro-power, biogas, and woodburning plants. It also operates centralized heating and cooling plants for large building complexes.

Ensource, which was established in 1996, buys and arranges transportation, storage and delivery of natural gas for large-volume customers.

Pacific Enterprises Energy Services (PEES), which also was established in 1996, provides energy related products and services to both commercial and residential customers. The New Product Development (NPD) group was consolidated into EMS in 1996 to support design and launch of new products. Five new residential consumer products were launched in 1996 as well as four commercial customer services.

Pacific Interstate Company (PIC), which is regulated by the FERC, purchases gas from producers in Canada and from federal waters offshore California and transports it for sale to SoCalGas and others. Of gas purchased by PIC in 1996, 96% was sold to SoCalGas. These deliveries accounted for approximately 30% of the total volume of gas purchased by SoCalGas and approximately 11% of SoCalGas' throughput.

Operating revenues increased to \$291 million in 1996 from \$212 million in 1995 due primarily from revenues of Ensource, the Company's subsidiary which markets natural gas. Ensource began operations in 1996 and had revenues of \$48 million. The net margin after operating expenses from gas marketing operations is not significant. Revenues also increased due to the higher commodity cost for gas delivered by PIC to SoCalGas. Partially offsetting the increase were lower revenues from power sales as some contracts converted from fixed rates to market-based rates. Operating revenues declined in 1995 by \$251 million primarily due to Comprehensive Settlement payments received by PIC in 1994 of \$210 million, lower commodity cost for gas delivered to SoCalGas and decreased revenues from alternate energy facilities due to lower amounts paid for electric generation according to the terms of the contracts.

Operating expenses increased to \$292 million in 1996 from \$213 million in 1995 due to operating expenses of Ensource, higher gas commodity costs at PIC and start up costs incurred by PEES. In 1995 operating expenses decreased by \$239 million from the 1994 level due primarily from the costs incurred by PIC in 1994 for the Comprehensive Settlement partially offset by a \$7 million nonrecurring charge for certain power sales contract restructuring issues.

Operating income declined by \$12 million in 1995 primarily due to lower revenue from power sales contracts and the \$7 million nonrecurring charge.

The primary difference between net income and income (loss) from operations before interest and taxes consists of intercompany interest income which is eliminated in the consolidated financial statements of the Company.

EMS owns indirect interests in several small electric generation facilities which are "qualifying facilities" under the Public Utility Regulatory Policies Act.

Qualifying facilities are entitled to a mandatory purchase obligation and exemption from regulation in connection with their sale of electricity. Qualifying facility status is not available to any facilities that are more than 50% owned by an electric utility or an electric utility holding company.

Upon the completion of the proposed business combination of Pacific Enterprises and Enova (see Note 1 of Notes to Consolidated Financial Statements), the new holding company by reason of its indirect ownership of SDG&E will become an electric utility holding company. Consequently, in order to avoid the loss of qualifying facility status the Company must cause its ownership in these facilities to be not more than 50% prior to the completion of the business combination. The Company is considering several alternatives to accomplish this result including the sale of all or part of these facilities. Income before interest and taxes earned from these assets was \$1 million for the year ended December 31, 1996. The Company does not expect that the sale of these facilities will have a material adverse effect on its consolidated results of operations or financial position.

#### PACIFIC ENTERPRISES INTERNATIONAL

PEI was established in late 1994 to participate in the international natural gas infrastructure market and began operations in March 1995.

Net loss was \$4.6 million in 1996 compared to \$2.1 million in 1995. The increase in net loss was primarily the result of higher general and administrative expenses from a full year of operations in 1996 compared to a partial year in 1995. The increase in general and administrative expenses was partially offset by a \$2.1 million, pre-tax, cash dividend received from its investment in two Argentine holding companies. A second dividend of \$2.5 million, pre-tax, was received in January 1997.

On April 10, 1996, PEI completed an acquisition of a 12.5% interest in two utility holding companies that control natural gas distribution utilities in Argentina. The acquisition price was \$48.5 million. These utilities in central and southern Argentina deliver about 625 million cubic feet of gas per day to 1.1 million customers. PEI has a role in actively managing the utility operations by providing expertise in areas such as underground storage, marketing gas usage, and technology applications.

On August 12, 1996, PEI, and two partners were awarded Mexico's first privatization license allowing the consortium to build and operate a natural gas distribution system in Mexicali, Baja California. The franchise was awarded to

Distribuidora de Gas Natural de Mexicali S. de R.L. de C.V. (DGN), a Mexican company formed by PEI, Enova International and Proxima Gas. DGN of which PEI has a 30% interest, will invest approximately \$20 million to \$25 million during an initial five-year period to provide service to more than 25,000 commercial, industrial and residential users. PEI invested approximately \$1 million in the Mexicali project during 1996.

Other international projects are currently under evaluation.

#### OTHER INCOME, INTEREST EXPENSE AND INCOME TAXES

##### OTHER INCOME

Other income, which primarily consists of interest income from short-term investments and interest income on regulatory accounts receivable balances, decreased in 1996 to \$25 million from \$34 million in 1995.

The decrease in 1996 is primarily due to a decrease in investment income from lower investment balances caused by unusually high short-term investments in 1995 as a result of overcollected gas costs that were refunded to customers in the fourth quarter of 1995 and cash used to redeem \$210 million of preferred stock in 1996. The decrease was also due to cash outflows for the \$48.5 million investment by PEI.

Other income decreased slightly to \$34 million in 1995 from \$38 million in 1994.

##### INTEREST EXPENSE

Interest expense for 1996 decreased to \$97 million from \$108 million in 1995. Interest expense was reduced from its 1995 level as a result of the lower long-term debt balance maintained throughout the year and the redemption of \$67 million of Swiss Franc bonds.

Interest expense for 1995 decreased to \$108 million from \$128 million in 1994. Interest expense was reduced in 1995 as a result of the repayment of nonutility debt and refinancing of SoCalGas' debt at lower interest rates. The Company had two interest rate swap agreements which effectively set \$200 million of variable rate debt to fixed rates. The swap agreements expired in September 1995 (see Note 9 of Notes to Consolidated Financial Statements).

##### INCOME TAXES

Income taxes for 1996 increased to \$151 million from \$129 million in 1995. The increase of \$22 million is primarily due to an increase in earnings before taxes to \$354 million in 1996 from \$314 million in 1995 (see Note 5 of Notes to Consolidated Financial Statements).

Income taxes for 1995 decreased to \$129 million from \$139 million in 1994. The decrease of \$10 million in 1995 was primarily due to capitalized information systems costs which are deductible for tax purposes.

#### INFORMATION REGARDING FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements with respect to matters inherently involving numerous risks and uncertainties. These statements are identified by the words "estimates", "expects", "anticipates", "plans", "believes", and similar expressions.

The analysis employed to develop these statements are necessarily based upon various assumptions involving judgments with respect to the future including, among other factors, national, regional, and local economic, competitive and regulatory conditions, legislative developments, technological developments, inflation rates, weather conditions, financial market conditions, future business decisions, and other uncertainties, all of which are difficult to predict, and many of which are beyond the control of the Company. Accordingly, while the Company believes that the assumptions upon which the forward-looking statements are based, are reasonable for purposes of making these statements, there can be no assurance that these assumptions will approximate actual experience, or that the expectations set forth in the forward-looking statements derived from these assumptions will be realized.



CONSOLIDATED STATEMENT OF INCOME

(Dollars in millions, except per share amounts)	Year Ended December 31		
	1996	1995	1994
<b>REVENUES AND OTHER INCOME</b>			
Operating Revenues	\$ 2,563	\$ 2,343	\$ 2,664
Other	25	34	38
<b>Total</b>	<b>2,588</b>	<b>2,377</b>	<b>2,702</b>
<b>EXPENSES</b>			
Cost of Gas Distributed	866	682	924
Operating Expenses	910	920	977
Depreciation and Amortization	255	243	239
Franchise Payments and Other Taxes	98	98	113
Preferred Dividends of a Subsidiary	8	12	10
<b>Total</b>	<b>2,137</b>	<b>1,955</b>	<b>2,263</b>
Income from Operations Before Interest and Income Taxes	451	422	439
Interest	97	108	128
Income from Operations Before Income Taxes	354	314	311
Income Taxes	151	129	139
Net Income	203	185	172
Dividends on Preferred Stock	5	10	12
Preferred Stock Original Issue Discount	2		
Net Income Applicable to Common Stock	\$ 196	\$ 175	\$ 160
Net Income Per Share of Common Stock	\$ 2.37	\$ 2.12	\$ 1.95
Common Dividends Declared Per Share	\$ 1.42	\$ 1.34	\$ 1.26
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING (IN THOUSANDS)	82,626	82,265	81,939

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	December 31	
	1996	1995
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 256	\$ 351
Accounts receivable--trade (less allowance for doubtful receivables of \$19 in 1996 and \$16 in 1995)	401	356
Accounts and notes receivable--other	80	67
Income taxes receivable	58	18
Deferred income taxes	9	17
Gas in storage	28	55
Other inventories	22	22
Regulatory accounts receivable--net	285	246
Prepaid expenses	22	38
<b>Total current assets</b>	<b>1,161</b>	<b>1,170</b>
<b>Investments and Other Assets:</b>		
Other investments	115	53
Other receivables	16	18
Regulatory assets	552	645
Other assets	105	91
<b>Total investments and other assets</b>	<b>788</b>	<b>807</b>
<b>Property, Plant and Equipment</b>	<b>6,080</b>	<b>5,909</b>
Less accumulated depreciation and amortization	2,843	2,627
<b>Total property, plant and equipment--net</b>	<b>3,237</b>	<b>3,282</b>
<b>Total assets</b>	<b>\$ 5,186</b>	<b>\$ 5,259</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	December 31	
	1996	1995
<b>LIABILITIES</b>		
Current Liabilities:		
Short-term debt	\$ 262	\$ 234
Accounts payable--trade	241	177
Accounts payable--other	336	299
Other taxes payable	29	47
Long-term debt due within one year	149	100
Accrued interest	41	44
Other	80	64
Total current liabilities	1,138	965
Long-Term Debt:		
Long-term debt	1,095	1,241
Debt of Employee Stock Ownership Plan	130	130
Total long-term debt	1,225	1,371
Deferred Credits and Other Liabilities:		
Long-term liabilities	166	232
Customer advances for construction	42	47
Postretirement benefits other than pensions	224	235
Deferred income taxes	321	246
Deferred investment tax credits	64	67
Other deferred credits	471	418
Commitments and Contingent Liabilities		
Total deferred credits and other liabilities	1,288	1,245
Preferred Stocks of a Subsidiary	95	195
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock:		
Remarketed Preferred, Series A		108
Preferred	80	80
Common	1,095	1,111
Total capital stock	1,175	1,299
Retained Earnings, after elimination of accumulated deficit of \$452 against common stock at December 31, 1992 as part of the quasi-reorganization	314	236
Less deferred compensation relating to Employee Stock Ownership Plan	(49)	(52)
Total shareholders' equity	1,440	1,483
Total liabilities and shareholders' equity	\$ 5,186	\$ 5,259

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

## STATEMENT OF CONSOLIDATED CASH FLOWS

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income	\$ 203	\$ 185	\$ 172
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and amortization	255	243	239
Deferred income taxes	33	71	(37)
Other--net	13	(3)	(31)
Net change in other working capital components	104	202	(153)
Changes in operating assets and liabilities of discontinued operations			65
Net cash provided by operating activities	608	698	255
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditures for Property, Plant and Equipment	(204)	(240)	(249)
Increase in Foreign Investments	(50)		
Increase in Other Investments	(12)	(2)	
Proceeds from Disposition of Properties		2	1
(Increase) Decrease in Other Receivables, Regulatory Assets and Other Assets	(20)	2	40
Net cash used in investing activities	(286)	(238)	(208)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Sale of Common Stock	8	6	7
Repurchase of Common Stock	(24)		
Redemption of Preferred Stock	(110)	(30)	(40)
Redemption of Preferred Stock of a Subsidiary	(100)		
Increase in Long-Term Debt	75		246
Decrease in Long-Term Debt	(172)	(207)	(20)
Increase (Decrease) in Short-Term Debt	29	(44)	11
Common and Preferred Dividends	(123)	(121)	(116)
Net cash provided by (used in) financing activities	(417)	(396)	88
Increase (Decrease) in Cash and Cash Equivalents	(95)	64	135
Cash and Cash Equivalents, January 1	351	287	152
Cash and Cash Equivalents, December 31	\$ 256	\$ 351	\$ 287

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

## STATEMENT OF CONSOLIDATED CASH FLOWS

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
<b>CHANGES IN OTHER WORKING CAPITAL COMPONENTS</b> (Excluding cash and cash equivalents, short-term debt and long-term debt due within one year)			
Current Assets:			
Receivables	\$ (58)	\$ 114	\$ (18)
Income taxes receivable	12	(30)	32
Inventories	27	22	(13)
Regulatory accounts receivable-net	46	198	237
Deferred income taxes	11		
Other	16	2	(10)
Total	54	306	228
Current Liabilities:			
Accounts payable	53	7	(454)
Deferred income taxes		(42)	46
Other taxes payable	(18)	(6)	1
Other	15	(63)	26
Total	50	(104)	(381)
Net change in other working capital components	\$ 104	\$ 202	\$ (153)
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash Paid During the Year for:			
Interest (net of amount capitalized)	\$ 100	\$ 101	\$ 130
Income taxes	\$ 92	\$ 129	\$ 98

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

## STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY

Years Ended December 31, 1996, 1995, and 1994 (Dollars in millions, except share amounts)	Preferred Stock		Common Stock		Retained Earnings	Deferred Compensation Relating to Employee Stock Ownership Plan	Total Shareholders' Equity
	Number of shares	No par value	Number of shares	No par value			
BALANCES AT DECEMBER 31, 1993	1,101,853	\$258	84,194,215	\$1,048	\$116	\$(138)	\$1,284
Net Income					172		172
Cash Dividends Declared:							
Preferred stock					(12)		(12)
Common stock					(104)		(104)
Common Stock Sold			337,577	7			7
Quasi-Reorganization Adjustment				37		77	114
Redemption of Preferred Stock	(400)	(40)					(40)
Adoption of SOP 93-6			(2,575,690)				
Common Stock Released from ESOP			155,161			7	7
BALANCES AT DECEMBER 31, 1994	1,101,453	218	82,111,263	1,092	172	(54)	1,428
Net Income						185	185
Cash Dividends Declared:							
Preferred stock					(10)		(10)
Common stock					(111)		(111)
Common Stock Sold			232,310	6			6
Quasi-Reorganization Adjustment				13			13
Redemption of Preferred Stock	(300,100)	(30)					(30)
Common Stock Released from ESOP			103,098			2	2
BALANCES AT DECEMBER 31, 1995	801,353	188	82,446,671	1,111	236	(52)	1,483
Net Income					203		203
Cash Dividends Declared:							
Preferred stock					(5)		(5)
Common stock					(118)		(118)
Common Stock Sold			292,108	8			8
Common Stock Repurchased			(816,000)	(24)			(24)
Redemption of Preferred Stock	(1,100)	(108)			(2)		(110)
Common Stock Released from ESOP			90,690			3	3
BALANCES AT DECEMBER 31, 1996	800,253	\$ 80	82,013,469	\$1,095	\$314	\$(49)	\$1,440

THE NUMBER OF SHARES OF COMMON STOCK AUTHORIZED AT DECEMBER 31, 1996 AND 1995 IS 600,000,000. THE NUMBER OF SHARES OF PREFERRED STOCK AND CLASS A PREFERRED STOCK AUTHORIZED AND OUTSTANDING AT DECEMBER 31, 1996 AND 1995 IS SET FORTH IN NOTE 12 OF NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

1. MERGER AGREEMENT WITH ENOVA CORPORATION

On October 14, 1996, Pacific Enterprises (the Company) and Enova Corporation (Enova), the parent company of San Diego Gas and Electric Company (SDG&E), announced an agreement, which both Boards of Directors unanimously approved, for the combination of the two companies, tax-free, in a strategic merger of equals to be accounted for as a pooling of interests. The combination was approved by the shareholders of both companies on March 11, 1997. Completion of the combination remains subject to approval by regulatory and governmental agencies.

As a result of the combination, the Company and Enova will become subsidiaries of a new holding company and their common shareholders will become common shareholders of the new holding company. Pacific Enterprises' common shareholders will receive 1.5038 shares of the new holding company's common stock for each of their shares of the Company's common stock, and Enova common shareholders will receive one share of the new holding company's common stock for each of their shares of Enova common stock. Preferred stock of Pacific Enterprises, Southern California Gas Company (SoCalGas), and SDG&E will remain outstanding.

The new holding company will be incorporated in California and will be exempt from the Public Utility Holding Company Act as an intrastate holding company.

The merger is subject to approval by certain regulatory and governmental agencies including the California Public Utilities Commission (CPUC), the Securities and Exchange Commission, and the Department of Justice. In addition, approval or a disclaimer of jurisdiction by the Federal Energy Regulatory Commission is required. Required approvals of the merger are expected to occur in late 1997. In the interim, the Company and Enova have formed a joint venture to provide integrated energy and energy related products and services.

The Company owns indirect interests in several small electric generation facilities which are "qualifying facilities" under the Public Utility Regulatory Policies Act. Qualifying facility status is not available to any facilities that are more than 50% owned by an electric utility or an electric utility holding company.

Upon the completion of the proposed business combination, the new holding company will become an electric utility holding company. Consequently, in order to avoid the loss of qualifying facility status the Company must cause its ownership in these facilities to be not more than 50% prior to the completion of the business combination. The Company is considering several alternatives to accomplish this result including the sale of all or part of these facilities and the Company believes a sale or other disposition will not have a material adverse effect on the Company's consolidated results of operations or financial position.

In connection with the merger, \$7 million of merger costs and expenses (\$4 million, after-tax, or \$.05 per share) were incurred and have been charged to expense in the fourth quarter of 1996. These costs consisted of legal, accounting, and investment banking fees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiaries of Pacific Enterprises. Investments in 50%-or-less owned joint ventures and partnerships are accounted for by the equity method or cost method, as appropriate.

RECLASSIFICATIONS

Certain changes in account classification have been made in the prior years' consolidated financial statements to conform to the 1996 financial statement presentation.

REGULATION

In conformity with generally accepted accounting principles, SoCalGas' accounting policies reflect the financial effects of rate regulation authorized by the CPUC, and interstate natural gas transmission subsidiaries follow accounting policies authorized by the Federal Energy Regulatory Commission.

The regulated subsidiaries apply the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). This statement requires cost-based rate regulated entities that meet certain criteria to reflect the authorized recovery of costs due to regulatory decisions in their financial statements.

The Company records Regulatory Assets which represent assets which are being recovered through customer rates or are probable of being recovered through customer rates. As of December 31, 1996, the Company had \$552 million of regulatory assets which included the following: costs of reacquiring debt--\$47 million; postretirement benefit costs (see Note 13)--\$206 million; Comprehensive Settlement costs (see Note 4)--\$101 million; deferred income taxes--\$93 million (see Note 5); and other costs--\$105 million.

Maintenance of the regulatory accounts and regulatory accounts receivable represent the only difference in the application of generally accepted accounting principles for the utility versus non-regulated entities.

REGULATORY ACCOUNTS RECEIVABLE--NET

Authorized regulatory balancing accounts are maintained to accumulate undercollections and overcollections from the revenue and cost estimates adopted by the CPUC in setting rates. SoCalGas makes periodic filings with the CPUC to adjust future gas rates to account for such variances.

INVENTORIES

Gas in storage inventory is stated at last-in, first-out (LIFO) cost. As a result of a regulatory accounting procedure, the pricing of gas in storage does not have any effect on net income. If the first-in, first-out (FIFO) method of accounting for gas in storage inventory had been used by SoCalGas, inventory would have been higher than reported at December 31, 1996 and 1995 by \$43 million and \$21 million, respectively. Other inventories are generally stated at the lower of cost, determined on an average cost basis, or market.

PROPERTY, PLANT AND EQUIPMENT

The costs of additions, renewals and improvements to utility plant are charged to the appropriate plant accounts. These costs include labor, material, other direct costs, indirect charges, and an allowance for funds used during construction. The cost of utility plant retired or otherwise disposed of, plus removal costs and less salvage, is charged to accumulated depreciation. Depreciation is recorded on the straight-line remaining-life basis. The depreciation methods are consistent with those used by non-regulated entities.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

AFUDC represents the cost of funds used to finance the construction of utility plant and is added to its cost. Interest expense of \$6 million in 1996, \$9 million in 1995, and \$4 million in 1994 was capitalized.



## OTHER

Cash equivalents include short-term investments purchased with maturities of less than 90 days.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 3. DISCONTINUED OPERATIONS AND QUASI-REORGANIZATION

During 1993, the Company completed a strategic plan to refocus on its natural gas utility and related businesses. The strategy included the divestiture of its retailing operations and substantially all of its oil and gas exploration and production business. In connection with the divestitures, the Company effected a quasi-reorganization for financial reporting purposes, effective December 31, 1992. Fair value adjustments charged to common stock totaled \$190 million. Additionally, the accumulated deficit in retained earnings of \$452 million at December 31, 1992 was eliminated by a reduction in the common stock account.

In connection with the sale of its retailing operations, the Company assumed the retailing group's Employee Stock Ownership Plan (ESOP) and related indebtedness (see Notes 9 and 13). In addition, the retailing group's buyer agreed to reimburse the Company for a portion of the ESOP quarterly debt service. In April 1994, the Company received a \$65 million payment from the buyer. This payment primarily reflected the settlement of the buyer's remaining debt service obligation. It also canceled a warrant granted to the Company in connection with the sale of retailing operations to purchase approximately 10% of the buyer's common stock. Since the sale of the retailing operations was recorded prior to the quasi-reorganization, the settlement and resolution of other contingencies related to the ESOP resulted in a \$114 million increase to shareholders' equity, of which \$37 million was to common stock.

The receipt of \$65 million is reflected in changes in operating assets and liabilities from discontinued operations in the consolidated statement of cash flows.

Certain of the liabilities established in connection with discontinued operations and the quasi-reorganization were favorably resolved in 1995, including the sale of ownership in the Company's headquarters building and settlement of certain lawsuits remaining from the oil and gas operations. Excess liabilities of \$13 million resulting from the favorable resolution of these issues were added to shareholders' equity. Other liabilities will be resolved in future years. As of December 31, 1996, the provisions for these matters are adequate.

### 4. REGULATORY MATTERS

#### RESTRUCTURING OF GAS SUPPLY CONTRACTS

In 1993, SoCalGas and the Company's gas supply subsidiaries restructured long-term gas supply contracts with suppliers of California offshore and Canadian gas. In the past, SoCalGas' cost of these supplies had been substantially in excess of its average delivered cost of gas for all gas supplies.

The restructured contracts substantially reduced the ongoing delivered costs of these gas supplies and provided lump sum payments totaling \$391 million to the suppliers. The expiration date for the Canadian gas supply contract was shortened from 2012 to 2003.

#### COMPREHENSIVE SETTLEMENT OF REGULATORY ISSUES

On July 20, 1994, the CPUC approved a comprehensive settlement (Comprehensive Settlement) of a number of pending regulatory issues including rate recovery of a significant portion of the

restructuring costs associated with long-term gas supply contracts discussed above. The Comprehensive Settlement permits SoCalGas to recover in utility rates approximately 80% of the contract restructuring costs of \$391 million and accelerated amortization of related pipeline assets of approximately \$140 million, together with interest, over a period of approximately five years. In addition to the gas supply issues, the Comprehensive Settlement addresses certain of the following regulatory issues:

- **NONCORE CUSTOMER RATES** The Comprehensive Settlement changed the procedures for determining noncore rates to be charged by SoCalGas to its customers for the five-year period commencing August 1, 1994. Rates charged to the customers are established based upon SoCalGas' recorded throughput to these customers for 1991. SoCalGas will bear the full risk of any declines in noncore deliveries from 1991 levels. Any revenue enhancement from deliveries in excess of 1991 levels will be limited by a crediting account mechanism that will require a credit to customers of 87.5% of revenues in excess of certain limits. These annual limits above which the credit is applicable increase from \$11 million to \$19 million over the five-year period from August 1, 1994 through July 31, 1999. The Company's ability to report as earnings the results from revenues in excess of SoCalGas' authorized levels from noncore customers due to volume increases has been eliminated for the five years beginning August 1, 1994 as a consequence of the Comprehensive Settlement.
- **REASONABLENESS REVIEWS** The Comprehensive Settlement includes settlement of all pending reasonableness reviews with respect to SoCalGas' gas purchases from April, 1989 through March, 1992, as well as certain other future reasonableness review issues.
- **GAS COST INCENTIVE MECHANISM** In 1994, the CPUC approved a new process for evaluating SoCalGas' gas purchases, substantially replacing the previous process of reasonableness reviews. The Gas Cost Incentive Mechanism (GCIM) is a three-year pilot program which began April 1, 1994. The GCIM essentially compares SoCalGas' cost of gas with a benchmark level, which is the average price of 30-day firm spot supplies delivered to the SoCalGas market area.

SoCalGas can recover costs of gas purchased in excess of the benchmark to the extent they fall within a tolerance band, which extends to 4% above the benchmark. If SoCalGas' cost of gas exceeds the tolerance level, then the excess cost will be shared equally between customers and shareholders. All savings from gas purchased below the benchmark are shared equally between customers and shareholders.

SoCalGas is currently in discussion with the CPUC to determine the amount of gas purchases for the second year of the program which were below the benchmark and to extend GCIM beyond its third year.

- **ATTRITION ALLOWANCES** The Comprehensive Settlement authorized SoCalGas an annual allowance for increases in operating and maintenance expenses for 1996 to the extent that the projected annual inflation rate exceeded 3%. In 1995 attrition was calculated on the inflation rate in excess of 2%. The rate base attrition was based upon a three-year rolling average of recorded net utility plant additions. This was a departure from past regulatory practice of allowing recovery in rates of the full effect of inflation on operating and maintenance expenses. SoCalGas intends to continue to attempt to control operating expenses and investment to amounts authorized in rates to

offset the effect of this regulatory change. The most recent decision issued by the CPUC in December 1995, authorized SoCalGas to collect \$12 million in rates for the 1996 attrition allowance. Under an agreement reached as part of the Performance Based Regulation (PBR) application, no attrition adjustment was authorized for 1997. The attrition allowance mechanism will be superseded by PBR.

The Company recorded the impact of the Comprehensive Settlement in 1993 and, upon giving effect to liabilities previously recognized at the Company and SoCalGas, the costs of the Comprehensive Settlement, including the restructuring of gas supply contracts, did not result in any additional charge to the Company's consolidated earnings.

Regulatory Accounts Receivable and Regulatory Assets include a total of approximately \$191 million and \$259 million at December 31, 1996 and 1995, respectively, for the recovery of costs as provided in the Comprehensive Settlement. The CPUC authorized the borrowing of \$425 million primarily to provide for funds needed under the Comprehensive Settlement. As of December 31, 1996, SoCalGas has \$186 million in commercial paper remaining outstanding related to the Comprehensive Settlement (see Note 8).

#### PERFORMANCE BASED REGULATION

SoCalGas has filed a PBR application with the CPUC which would maintain cost based rates and link financial performance with productivity. The company believes PBR will permit the continued applicability of SFAS 71 to account for SoCalGas' operations. However, the terms of PBR ultimately authorized by the CPUC may contain elements that could result in SoCalGas not meeting all the criteria for continued application of SFAS 71 (see Note 2).

#### 5. INCOME TAXES

A reconciliation of the difference between computed statutory federal income tax expense and actual income tax expense for operations is as follows:

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
Computed statutory federal income tax expense	\$ 124	\$ 110	\$ 109
Increases (reductions) resulting from:			
Depreciation and other items not deferred			
--SoCalGas	23	20	17
Capitalized expenses not deferred			
--SoCalGas	(11)	(10)	(6)
State income taxes --net of federal income tax benefit	20	20	17
Investment tax credits	(3)	(3)	(3)
Other--net	(2)	(8)	5
Income tax expense from operations	\$ 151	\$ 129	\$ 139

The components of income tax expense for operations are as follows:

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
Federal			
Current	\$ 68	\$ 70	\$ 79
Deferred	51	28	34
	119	98	113
State			
Current	25	32	26
Deferred	7	(1)	
	32	31	26
Total			
Current	93	102	105
Deferred	58	27	34
	\$ 151	\$ 129	\$ 139

The principal components of net deferred tax liabilities are as follows:

(Dollars in millions)	December 31, 1996		
	Assets	Liabilities	Total
Accelerated depreciation for tax purposes		\$ (541)	\$ (541)
Comprehensive Settlement	\$ 137	(47)	90
Regulatory accounts receivable		(132)	(132)
Postretirement benefits	87		87
Restructuring costs deferred for tax purposes	46		46
Deferred investment tax credits	28		28
Partnership income		(35)	(35)
Customer advances for construction	20		20
Regulatory asset		(109)	(109)
Other regulatory	143	(50)	93
AMT carryforward	24		24
Other	123	(6)	117
Total deferred income tax assets (liabilities)	\$ 608	\$ (920)	\$ (312)

(Dollars in millions)	December 31, 1995		
	Assets	Liabilities	Total
Accelerated depreciation for tax purposes		\$ (489)	\$ (489)
Comprehensive Settlement	\$ 159	(77)	82
Regulatory accounts receivable		(104)	(104)
Postretirement benefits	90		90
Restructuring costs deferred for tax purposes	58		58
Deferred investment tax credits	30		30
Partnership income		(45)	(45)
Customer advances for construction	21		21
Regulatory asset		(120)	(120)
Other regulatory	119	(46)	73
AMT carryforward	74		74
Other	134	(33)	101
Total deferred income tax assets (liabilities)	\$ 685	\$ (914)	\$ (229)

Income tax expense recognized for a period is the amount of tax currently payable adjusted by the change in aggregate deferred tax assets and liabilities. Deferred taxes are recorded to recognize the future tax consequences of events that have been recognized in the financial statements or tax returns. No valuation allowance has been provided for deferred tax assets since they are expected to be realized through either reversal of existing temporary differences or future taxable income.

SoCalGas generally provides for income taxes on the basis of amounts expected to be paid currently, except for the provision for deferred taxes

on regulatory accounts, customer advances for construction and accelerated depreciation of property placed in service after 1980. In addition, SoCalGas recognizes certain other deferred tax liabilities (primarily accelerated depreciation of property placed in service prior to 1981 and deferred investment tax credits) which are expected to be recovered through future rates. At December 31, 1996 and 1995, \$93 million and \$109 million, respectively, of deferred income taxes have been offset by an equivalent amount in regulatory assets.

## 6. COMMITMENTS AND CONTINGENT LIABILITIES

### ENVIRONMENTAL OBLIGATIONS

SoCalGas has identified and reported to California environmental authorities 42 former manufactured gas plant sites for which it (together with other utilities as to 21 of these sites) may have remedial obligations under environmental laws. As of December 31, 1996, ten of these sites have been remediated, of which six have received certification from the California Environmental Protection Agency. One site remedy is in process. Preliminary investigations, at a minimum, have been completed on 39 of the gas plant sites, including those sites at which the remediations described above have been completed. In addition, the Company and its subsidiaries have been named as potentially responsible parties for two landfill sites and three industrial waste disposal sites.

In 1994, the CPUC approved a collaborative settlement which provides for rate recovery of 90% of environmental investigation and remediation costs without reasonableness review. In addition, SoCalGas has the opportunity to retain a percentage of any insurance recoveries to offset the 10% of costs not recovered in rates.

At December 31, 1996, SoCalGas' estimated remaining investigation and remediation liability was \$77 million, of which 90% is authorized to be recovered through the mechanism discussed above. The Company believes that any costs not ultimately recovered through rates, insurance or other means, upon giving effect to previously established liabilities, 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 mechanism described above are recorded as a regulatory asset. Possible recoveries of environmental remediation liabilities from third parties are not deducted from the liability.

### LITIGATION

The Company is a defendant in various lawsuits arising in the normal course of business. The Company believes that the resolution of these pending claims and legal proceedings will not have a material adverse effect on the Company's consolidated results of operations or financial position.

### OBLIGATIONS UNDER FIRM COMMITMENTS

The Company has commitments for firm pipeline capacity under contracts with pipeline companies that expire at various dates through the year 2006. These agreements provide for payments of an annual reservation charge. The Company recovers such fixed charges in rates. Estimated minimum commitments as of December 31, 1996 are as follows: 1997 - \$214 million, 1998 - \$209 million, 1999 - \$174 million, 2000 - \$176 million, 2001 - \$176 million, after 2001 - \$815 million.

## OTHER COMMITMENTS AND CONTINGENCIES

At December 31, 1996 commitments for capital expenditures were approximately \$30 million.

### 7. LEASES

The Company and its subsidiaries have leases on real and personal property expiring at various dates from 1997 to 2011. The rentals payable under these leases are determined on both fixed and percentage bases and most leases contain options to extend which are exercisable by the Company or the subsidiaries.

Rental expense under space operating leases was \$58 million, \$66 million and \$63 million in 1996, 1995 and 1994, respectively.

The following is a schedule of future minimum operating lease commitments as of December 31, 1996:

(Dollars in millions)	Future Minimum Lease Payments
-----	
Year Ended December 31:	
1997	\$ 38
1998	35
1999	35
2000	35
2001	35
Later years	260
	-----
Total	\$ 438
-----	

In connection with the quasi-reorganization and loss on disposal of discontinued operations (see Note 3), the Company established reserves of \$102 million to fair value operating leases related to its headquarters and other leases at December 31, 1992. The remaining amount of these reserves was \$82 million at December 31, 1996.

### 8. COMPENSATING BALANCES AND SHORT-TERM BORROWING ARRANGEMENTS

The Company has a \$300 million multi-year credit agreement requiring annual fees of .07%. SoCalGas has an additional \$650 million multi-year credit agreement requiring annual fees of .07%. The interest rates on these lines vary and are derived from formulas based on market rates and the companies' credit ratings. The multi-year credit agreements expire in February 2001. At December 31, 1996 all bank lines of credit were unused. SoCalGas' lines of credit provide backing for its commercial paper program.

At December 31, 1996 and 1995, SoCalGas had \$358 million and \$415 million, respectively, of commercial paper obligations outstanding. A portion of the outstanding commercial paper relates to the restructuring costs associated with certain long-term gas supply contracts under the Comprehensive Settlement (see Note 4). The weighted average annual interest rate of commercial paper obligations outstanding was 5.36% and 5.66% at December 31, 1996 and 1995, respectively.

At December 31, 1996, the Company has classified \$96 million of the commercial paper as long-term debt since it is the Company's intent to continue to refinance that portion of the debt on a long-term basis. The Company intends to utilize the SoCalGas \$650 million multi-year credit agreement to refinance the debt on a long-term basis if short-term financing is not available.

## 9. LONG-TERM DEBT

(Dollars in millions)	December 31	
	1996	1995
SOUTHERN CALIFORNIA GAS COMPANY		
First Mortgage Bonds:		
6 1/2% December 15, 1997	\$ 125	\$ 125
5 1/4% March 1, 1998	100	100
6 7/8% August 15, 2002	100	100
5 3/4% November 15, 2003	100	100
8 3/4% October 1, 2021	150	150
7 3/8% March 1, 2023	100	100
7 1/2% June 15, 2023	125	125
6 7/8% November 1, 2025	175	175
Other Long-Term Debt:		
5.98% Notes, August 28, 1997	22	22
6.21% Notes, November 7, 1999	75	
8 3/4% Notes, July 6, 2000	30	30
SFr. 150,000,000 7 1/2% Foreign Interest Payment Securities, May 14, 1996		75
SFr. 15,695,000, 6 3/8% Foreign Interest Payment Securities, May 14, 2006	8	
SFr. 100,000,000 5 1/8% Bonds, February 6, 1998 (Foreign currency exposure hedged through currency swap at an interest rate of 9.725%)	47	47
5.33% Commercial Paper, February 8, 2001	96	181
	1,253	1,330
OTHER		
8% - 9.5% 1997-2001	7	26
Total	1,260	1,356
Less:		
Long-term debt due within one year	149	100
Unamortized debt discount less premium	16	15
	165	115
Long-Term Debt	\$ 1,095	\$ 1,241

The annual principal payment requirements of long-term debt, including debt of the ESOP, for the years 1997 through 2001 are \$149 million, \$149 million, \$207 million, \$31 million, and \$97 million, respectively. Substantially all of utility plant serves as collateral for the First Mortgage Bonds, and certain assets of the nonutility subsidiaries are pledged as collateral for their obligations.

## DEBT OF EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST (TRUST) (SEE NOTE 13)

The TRUST covers substantially all employees and is used to partially fund the Company's retirement savings program. It has an ESOP feature and holds approximately 2.2 million shares of common stock of the Company. The variable rate ESOP debt held by the TRUST bears interest at a rate necessary to place or remarket the notes at par. Principal is due on November 30, 1999 and interest is payable monthly through 1999. The Company is obligated to make contributions to the TRUST sufficient to satisfy debt service requirements. As the Company makes contributions to the TRUST, these contributions, plus any dividends paid on the unallocated shares of the Company's common stock held by the TRUST, will be used to repay the debt. As dividends are increased or decreased, required contributions are reduced or increased, respectively. Interest on ESOP debt amounted to \$6 million in 1996, \$7 million in 1995, and \$5 million in 1994. Dividends used for debt service amounted to \$3 million, in each of the years 1996, 1995 and 1994, respectively, and are deductible for federal income tax purposes.

#### CURRENCY RATE SWAPS

In February 1986, SoCalGas issued SFr. 100 million of 5 1/8% bonds which will mature on February 6, 1998. SoCalGas has entered into a swap transaction with a major international bank to hedge the currency exposure. Under the agreement with the bank, the bond issue, interest payments, and other ongoing costs were swapped for fixed annual payments. The terms of the swap result in a U.S. dollar liability of \$47 million at an interest rate of 9.725%.

In May 1986, SoCalGas issued SFr. 150 million of 7 1/2% Foreign Interest Payment Securities which are renewable at 10-year intervals at reset interest rates. Interest is payable in U.S. dollars. The principal was exchanged into \$75 million at an exchange rate of 1.9925, which is also the minimum rate of exchange for determining the amount of principal repayable in Swiss francs.

On April 30, 1996 investors put back \$67 million (90%) of the \$75 million Foreign Interest Payment Securities outstanding. The next available put date for the outstanding balance is in the year 2006. The interest rate on the remaining balance was reset to 6 3/8%.

#### 10. FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The amounts disclosed represent management's best estimates of fair value.

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short term debt approximated fair value as of December 31, 1996 and 1995 because of the relatively short maturity of these instruments. The debt of the ESOP approximated fair market value as of December 31, 1996 and 1995, based upon quoted market prices currently available to the Company for debt with similar terms and maturity.

The fair value of SoCalGas' long-term debt, 6% preferred, and 7 3/4% preferred stock is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to SoCalGas for debt of similar remaining maturities. The fair value of these financial instruments is different from the carrying amount.



The following financial instruments have a fair value which is different from the carrying amount as of December 31.

(Dollars in millions)	Carrying Amount	Fair Value
-----		
1996:		
Long-Term Debt of SoCalGas	\$ 1,237	\$ 1,248
Preferred Stocks of SoCalGas	\$ 95	\$ 92
1995:		
Long-Term Debt of SoCalGas	\$ 1,315	\$ 1,278
Preferred Stocks of SoCalGas	\$ 95	\$ 92
-----		

As a result of the GCIM (See Note 4), SoCalGas enters into a certain amount of gas futures contracts in the open market with the intent of reducing gas costs within the GCIM tolerance band. SoCalGas' policy is to use gas futures contracts to mitigate risk and better manage gas costs. The CPUC has approved the use of gas futures for managing risk associated with the GCIM. For the year ended December 31, 1996, gains or losses from gas futures contracts are not material to the Company's consolidated results of operations or financial position.

In 1996, the Company launched Ensource, an energy marketing subsidiary that buys and arranges transportation, storage and delivery of natural gas for large-volume customers. SoCalGas is a customer of Ensource.

Ensource utilizes a number of derivative financial instruments to reduce its exposure to market risks from changes in commodity prices. Its strategies include price hedging programs which include the use of natural gas futures, forwards, and swaps, all of which are over-the-counter instruments and involve little complexity. The Company does not hold financial instruments for speculative trading purposes. For the year ended December 31, 1996, realized and unrealized gains and losses from these derivative instruments are not material to the Company's consolidated results of operations or financial position.

#### 11. PREFERRED STOCKS OF A SUBSIDIARY

The amount of preferred stocks of SoCalGas outstanding at December 31 is as follows:

	Number of Shares	Millions of Dollars
-----		
1996:		
6%, \$25 par value	29,361	\$ 1
6% Series A, \$25 par value	783,032	19
Series Preferred, no par value		
7 3/4%, \$25 Stated Value	3,000,000	75
		-----
		\$ 95
-----		
1995:		
6%, \$25 par value	29,507	\$ 1
6% Series A, \$25 par value	783,032	19
Series Preferred, no par value		
Flexible Auction, Series A	500	50
Flexible Auction, Series C	500	50
7 3/4%, \$25 Stated Value	3,000,000	75
		-----
		\$ 195
-----		

In 1996, SoCalGas redeemed \$50 million of the Flexible Auction Series A, and \$50 million of the Flexible Auction Series C preferred stock.

12. PREFERRED STOCK

At December 31, 1995, the Company had 1,100 shares of Remarketed Preferred, Series A Stock (RP) outstanding with a liquidation preference of \$100,000 per share. In April 1996, the Company exercised its option to redeem the RP shares, in whole, at \$100,000 per share plus accumulated dividends. In connection with the redemption of the RP, the Company recorded a \$2.4 million nonrecurring deduction to income applicable to common stock to reflect the write-off of the original issuance underwriting discount.

All or any part of every series of presently outstanding preferred stock is subject to redemption at the Company's option at any time upon not less than 30 days notice, at the applicable redemption prices for each series, together with the accrued and accumulated dividends to the date of redemption. None of the outstanding issues of preferred stock has any conversion rights. The weighted average dividend rates were 4.5% in 1996, and 4.9% in 1995.

The number of shares of preferred stock and class A preferred stock authorized and outstanding is as follows:

	Redemption Price Per Share	December 31, 1996		December 31, 1995	
		Shares Authorized	Shares Outstanding	Shares Authorized	Shares Outstanding
-----					
Preferred stock-cumulative, no par value:					
Remarketed, Series A	\$100,000.00	0	0	1,500	1,100
\$7.64 Dividend	101.00	0	0	300,000	0
\$4.75 Dividend	100.00	200,000	200,000	200,000	200,000
\$4.50 Dividend	100.00	300,000	300,000	300,000	300,000
\$4.40 Dividend	101.50	100,000	100,000	100,000	100,000
\$4.36 Dividend	101.00	200,000	200,000	200,000	200,000
\$4.75 Dividend	101.00	253	253	353	253
Unclassified		9,199,147		8,898,147	
Total		10,000,000	800,253	10,000,000	801,353
-----					
Class A preferred stock-cumulative, no par value		5,000,000	0	5,000,000	0
-----					

### 13. PENSION, POSTRETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS

#### PENSION PLANS

The Company and certain subsidiaries have noncontributory defined benefit pension plans covering substantially all of their employees. Over 90% of the employees covered by the plans are employed by SoCalGas. Benefits are based on an employee's years of service and compensation during his or her last years of employment. The Company's policy is to fund the plans annually at a level which is fully deductible for federal income tax purposes and as necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members.

Pension expense was as follows:

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
Service cost-benefits earned during the period	\$ 39	\$ 27	\$ 36
Interest cost on projected benefit obligation	103	91	87
Actual return on plan assets	(220)	(333)	(1)
Net amortization and deferral	107	223	(102)
Net periodic pension cost	29	8	20
Special early retirement program		18	12
Regulatory adjustment	3	2	(3)
Total pension expense	\$ 32	\$ 28	\$ 29

A reconciliation of the plans' funded status to the pension liability recognized in the Consolidated Balance Sheet is as follows:

(Dollars in millions)	December 31	
	1996	1995
Actuarial present value of pension benefit obligations:		
Accumulated benefit obligation, including \$1,168 and \$1,060 in vested benefits at December 31, 1996 and 1995, respectively	\$ 1,205	\$ 1,195
Effect of future salary increases	231	298
Projected benefit obligation	1,436	1,493
Less: Plan assets at fair value, primarily publicly traded common stocks and pooled equity funds	(1,774)	(1,603)
Unrecognized net gain	415	191
Unrecognized prior service cost	(35)	(44)
Unrecognized transition obligation	(5)	(5)
Accrued pension liability included in the Consolidated Balance Sheet	\$ 37	\$ 32

The plans' major actuarial assumptions include:

Weighted average discount rate	7.50%	6.85%
Rate of increase in future compensation levels	5.00%	5.00%
Expected long-term rate of return on plan assets	8.00%	8.00%

#### POSTRETIREMENT BENEFIT PLAN

The Company's postretirement benefit plan currently provides medical and life insurance benefits to qualified retirees. In the past, employee cost-sharing provisions have been implemented to control the increasing costs of these benefits. Other changes could occur in the future. The Company's policy is to fund these benefits at a level which is fully deductible for federal income tax purposes,

not to exceed amounts recoverable in rates for regulated companies, and as necessary on an actuarial basis to provide assets sufficient to be paid to plan participants.

The net periodic postretirement benefit expense was as follows:

(Dollars in millions)	Year Ended December 31		
	1996	1995	1994
Service cost-benefits earned during the period	\$ 17	\$ 13	\$ 14
Interest cost on projected benefit obligation	33	31	28
Actual return on plan assets	(32)	(37)	(1)
Net amortization and deferral	13	23	(10)
Net periodic postretirement benefit cost	31	30	31
Regulatory adjustment	13	13	13
Net postretirement benefit expense	\$ 44	\$ 43	\$ 44

A reconciliation of the plan's funded status to the postretirement liability recognized in the Consolidated Balance Sheet is as follows:

(Dollars in millions)	December 31	
	1996	1995
Accumulated postretirement benefit obligation:		
Retirees	\$ 209	\$ 193
Fully eligible active plan participants	171	255
Other active plan participants	21	24
	401	472
Less: Plan assets at fair value, primarily publicly traded common stocks and pooled equity funds	(274)	(217)
Unrecognized prior service cost	78	15
Unrecognized net gain/(loss)	19	(35)
Net postretirement benefit liability included in the Consolidated Balance Sheet	\$ 224	\$ 235

The plan's major actuarial assumptions include:

Health care cost trend rate	7.00%	7.50%
Weighted average discount rate	7.50%	6.85%
Rate of increase in future compensation levels	5.00%	5.00%
Expected long-term rate of return on plan assets	8.00%	8.00%

The assumed health care cost trend rate is 7.0% for 1997. The trend rate is expected to decrease from 1997 to 1998 with a 6.5% ultimate trend rate thereafter. The effect of a one-percentage-point increase in the assumed health care cost trend rate for each future year is \$10.9 million on the aggregate of the service and interest cost components of net periodic postretirement cost for 1996 and \$86.3 million on the accumulated postretirement

benefit obligation at December 31, 1996. The estimated income tax rate used in the return on plan assets is zero since the assets are invested in tax exempt funds.

#### POSTEMPLOYMENT BENEFITS

The Company accrues its obligation to provide benefits to former or inactive employees after employment but before retirement. There was no impact on earnings since these costs are currently recovered in rates as paid, and as such, have been reflected as a regulatory asset. At December 31, 1996 and 1995 the liability was \$41 million and \$45 million, respectively, and represents primarily workers compensation and disability benefits.

#### RETIREMENT SAVINGS PLAN

Upon completion of one year of service, all employees of the Company and certain subsidiaries are eligible to participate in the Company's retirement savings plan administered by bank trustees. Employees may contribute from 1% to 14% of their regular earnings. The Company generally contributes an amount of cash or a number of shares of the Company's common stock of equivalent fair market value which, when added to prior forfeitures, will equal 50% of the first 6% of eligible base salary contributed by employees. The employees' contributions, at the direction of the employees, are primarily invested in the Company's common stock, mutual funds or guaranteed investment contracts. In 1994, 1995 and 1996 the Company's contributions were partially funded by the Pacific Enterprises Employee Stock Ownership Plan and Trust. The Company's compensation expense was \$8 million in 1996 and 1995, and \$9 million in 1994.

#### EMPLOYEE STOCK OWNERSHIP PLAN

The Company retained Pacific Enterprises Employee Stock Ownership Plan and Trust (TRUST) subsequent to the sale of the retailing operations in 1992 (See Notes 3 and 9). The TRUST covers substantially all employees and is used to partially fund the Company's retirement savings plan program. All contributions to the TRUST are made by the Company, and there are no contributions by the participants. As the Company makes contributions to the ESOP, the ESOP debt service is paid and shares are released proportionately to the total expected debt service.

Compensation expense is charged and equity is credited for the market value of the shares released. However, tax deductions are allowed based on the cost of the shares. Dividends on unallocated shares are used to pay debt service and are charged against liabilities. The TRUST held 2.2 million and 2.3 million shares of common stock with fair values of \$67.6 million and \$65.5 million at December 31, 1996 and 1995, respectively.

#### 14. STOCK BASED COMPENSATION

The Company accounts for stock options issued to employees under the provisions described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). In October 1995, Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" (SFAS 123) was issued. This statement establishes a fair-value-based method of accounting for employee stock options or similar equity instruments and encourages, but does not require, all companies to adopt that method of accounting for all of their employee stock compensation plans.

SFAS 123 allows companies to continue to measure compensation cost for employee stock options or similar equity instruments using the intrinsic value method of accounting described in APB 25. The Company has elected to remain with this method and is required to make pro forma disclosures of net income and earnings per share as if SFAS 123 accounting had been applied.

The Company's Employee Stock Option Plan provides for the granting of stock options to officers and other employees of the Company and its affiliated subsidiaries. The option price is equal to the market price of the Company's stock at the date of grant. The stock options expire in ten years from the date of grant, and options vest annually over a service period ranging from three to five years. In 1994, the number of shares authorized for grants of options was 830,000. The authorized number of options granted each year subsequent to 1994 is 1% of the outstanding common stock at the beginning of the year.

The plan allows for the granting of dividend equivalents based upon performance goals. This feature provides grantees, upon exercise of the option, with the opportunity to receive all or a portion of the cash dividends that would have been paid on the shares if the shares had been outstanding since the grant date. Dividend equivalents are not payable if the Company does not meet the established performance goal, or if the exercise price exceeds the market value of the shares purchased. The percentage of dividends paid as dividend equivalents will depend upon the extent to which the performance goals are met.

Stock option activity for the years ended December 31, 1994, 1995, and 1996 is summarized in the following tables:

OPTIONS WITH PERFORMANCE BASED DIVIDEND EQUIVALENTS

	Shares Under Option	Wtd. Avg Exercise Prices	Exercisable at Year-End
December 31, 1993	906,020	\$27.94	
Granted	160,000	21.50	
Exercised	(2,000)	19.25	
Canceled	(61,960)	33.37	
December 31, 1994	1,002,060	\$26.59	412,160
Granted	562,700	24.40	
Exercised	(227,400)	20.21	
Canceled	(66,560)	41.51	
December 31, 1995	1,270,800	\$25.98	366,900
Granted	685,200	27.00	
Exercised	(62,500)	21.46	
Canceled	(51,400)	39.46	
December 31, 1996	1,842,100	\$26.14	588,067

OPTIONS WITHOUT DIVIDEND EQUIVALENTS

	Shares Under Option	Wtd. Avg Exercise Prices	Exercisable at Year-End
December 31, 1993	875,270	\$29.40	
Granted	376,500	21.50	
Exercised	(4,600)	8.14	
Canceled	(144,620)	30.55	
December 31, 1994	1,102,550	\$26.64	413,950
Granted	0	0.00	
Exercised	(160,080)	22.49	
Canceled	(119,770)	27.63	
December 31, 1995	822,700	\$27.30	431,200
Granted	0	0.00	
Exercised	(140,000)	23.04	
Canceled	(32,000)	38.72	
December 31, 1996	650,700	\$27.66	395,940

Information on options outstanding and exercisable at December 31, 1996 is as follows:

OUTSTANDING OPTIONS

Range of Exercise Prices	Number of Shares	Wtd. Average Remaining Life	Wtd. Average Exercise Price
\$ 19.25-27.00	2,153,400	7.67	\$ 24.10
\$ 36.25-53.00	339,400	3.20	\$ 41.99
	2,492,800	7.06	\$ 26.53

EXERCISABLE OPTIONS

Range of Exercise Prices	Number of Shares	Wtd Average Exercise Price
\$ 19.25-27.00	644,607	\$ 22.75
\$ 36.25-53.00	339,400	\$ 41.99
	984,007	\$ 29.39

Under terms of the plan, all outstanding options granted became immediately exercisable upon approval of the business combination with Enova by the Company's shareholders.

The fair value of each option grant (including the dividend equivalent) was estimated on the date of grant using the Black-Scholes option-pricing model. Weighted average fair values for options granted in 1996 and 1995 were \$7.52 and \$7.32, respectively.

The assumptions that were used to determine these fair values are as follows:

	Year Ended December 31	
	1996	1995
Stock price volatility	19%	19%
Risk-free rate of return	6.1%	7.1%
Annual dividend yield	0%	0%
Expected life	4.3 years	4.3 years

No compensation expense has been recognized for the Company's stock based compensation plans except for the performance based options. The Company recorded compensation expense of \$5.5 million and \$3.4 million in 1996 and 1995, respectively.

If compensation expense for the Company's stock based compensation plans had been determined based on the fair value of the stock options at the grant dates consistent with the method outlined in SFAS 123, net income and earnings per share would have been adjusted to the pro forma amounts indicated below:

(Dollars in millions, except per share amounts)	Year Ended December 31	
	1996	1995
Net income:		
As reported	\$ 203	\$ 185
Pro forma	\$ 203	\$ 185
Earnings per share:		
As reported	\$ 2.37	\$ 2.12
Pro forma	\$ 2.38	\$ 2.13

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR  
CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared by management. The integrity and objectivity of these financial statements and the other financial information in the Annual Report, including the estimates and judgments on which they are based, are the responsibility of management. The financial statements have been audited by Deloitte & Touche, LLP, independent certified public accountants, appointed by the Board of Directors. Their report is shown on page 59. Management has made available to Deloitte & Touche, LLP all of the Company's financial records and related data, as well as the minutes of shareholders' and directors' meetings.

Management maintains a system of internal accounting control which it believes is adequate to provide reasonable, but not absolute, assurance that assets are properly safeguarded and accounted for, that transactions are executed in accordance with management's authorization and are properly recorded and reported, and for the prevention and detection of fraudulent financial reporting. Management monitors the system of internal control for compliance through its own review and a strong internal auditing program which also independently assesses the effectiveness of the internal controls. In establishing and maintaining internal controls, the Company must exercise judgment in determining whether the benefits derived justify the costs of such controls.

Management acknowledges its responsibility to provide financial information (both audited and unaudited) that is representative of the Company's operations, reliable on a consistent basis, and relevant for a meaningful financial assessment of the Company. Management believes that the control process enables them to meet this responsibility.

Management also recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the Company's code of corporate conduct, which is publicized throughout the Company. The Company maintains a systematic program to assess compliance with this policy.

The Board of Directors has an Audit Committee composed solely of directors who are not officers or employees. The Committee recommends for approval by the full Board the appointment of the independent auditors. The Committee meets regularly with management, with the Company's internal auditors, and with the independent auditors. The independent auditors and the internal auditors periodically meet alone with the Audit Committee and have free access to the Audit Committee at any time.

Willis B. Wood, Jr.  
Chairman and Chief Executive Officer

Larry J. Dagley  
Senior Vice President and Chief Financial Officer



INDEPENDENT AUDITORS' REPORT

PACIFIC ENTERPRISES:

We have audited the consolidated financial statements of Pacific Enterprises and subsidiaries (pages 35 to 57) as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996. 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 generally accepted auditing standards. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pacific Enterprises and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

Los Angeles, California  
January 28, 1997

## SELECTED FINANCIAL DATA AND COMPARATIVE STATISTICS 1986-1996

(Dollars in millions, except per share amounts)	1996	1995	1994	1993
<b>CONSOLIDATED:</b>				
Operating revenues from continuing operations	\$ 2,563	\$ 2,343	\$ 2,664	\$ 2,899
Income from continuing operations	\$ 203	\$ 185	\$ 172	\$ 181
Income (loss) from discontinued operations				
Net income (loss)	203	185	172	181
Dividends on preferred stock	5	10	12	15
Preferred stock original issue discount	2			
Net income (loss) applicable to common stock	\$ 196	\$ 175	\$ 160	\$ 166
Net income (loss) per share of common stock:				
Continuing operations	\$ 2.37	\$ 2.12	\$ 1.95	\$ 2.06
Discontinued operations				
	\$ 2.37	\$ 2.12	\$ 1.95	\$ 2.06
Cash dividends per share of common stock	\$ 1.42	\$ 1.34	\$ 1.26	\$ .60
Book value per share	\$ 16.58	\$ 15.71	\$ 14.74	\$ 12.19
Capital expenditures of continuing operations	\$ 204	\$ 240	\$ 249	\$ 331
Total assets	\$ 5,186	\$ 5,259	\$ 5,445	\$ 5,596
Capitalization:				
Short-term debt	\$ 262	\$ 234	\$ 278	\$ 267
Long-term debt due within one year	149	100	128	58
Long-term debt	1,095	1,241	1,420	1,262
Long-term debt of esop	130	130	130	132
Obligations under capital leases				
Preferred stocks of a subsidiary:				
Redeemable				
Nonredeemable	95	195	195	195
Preferred stock	80	188	218	258
Common stock	1,095	1,111	1,092	1,048
Retained earnings	314	236	172	116
Less deferred compensation relating to ESOP	(49)	(52)	(54)	(138)
Total capitalization	\$ 3,171	\$ 3,383	\$ 3,579	\$ 3,198
Number of employees	7,643	7,860	8,484	9,200
<b>SOCALGAS:</b>				
Gas revenues:				
Residential	\$ 1,613	\$ 1,554	\$ 1,713	\$ 1,653
Commercial/industrial	708	751	798	853
Utility electric generation	70	104	118	147
Wholesale	70	62	98	117
Exchange	1	1	1	4
Gas revenues in rates	2,462	2,472	2,728	2,774
Regulatory balancing accounts and other	(40)	(193)	(141)	37
Total operating revenue	\$ 2,422	\$ 2,279	\$ 2,587	\$ 2,811
Gas volumes delivered (billion cubic feet):				
Residential	236	239	256	248
Commercial/industrial	374	351	348	339
Utility electric generation	139	205	260	213
Wholesale	130	129	146	148
Exchange	5	13	10	17
Total	884	937	1,020	965
Core	314	325	341	339
Noncore	570	612	679	626
Total	884	937	1,020	965
Gas volumes sold	315	338	362	352
Gas volumes transported or exchanged	569	599	658	613
Total	884	937	1,020	965
Number of customers:				
Residential	4,582,553	4,526,150	4,483,324	4,459,250
Commercial	184,425	184,470	187,518	187,602
Industrial	22,952	22,976	23,505	23,924
Utility electric generation/wholesale	12	11	11	11
Total number of customers	4,789,942	4,733,607	4,694,358	4,670,787
Gas purchased (billion cubic feet):				
Market gas:				
30-day	153	133	98	85
Other	73	73	149	159
Total market gas purchased	226	206	247	244
Affiliates	96	99	101	97
Other long-term supplies	12	29	36	28
Total gas purchased	334	334	384	369

Average cost of gas purchased excluding fixed costs (per thousand cubic feet)	\$ 1.88	\$ 1.42	\$ 1.68	\$ 2.21
Weighted average rate base	\$ 2,777	\$ 2,766	\$ 2,862	\$ 2,769
Authorized rate of return on:				
Rate base	9.42%	9.67%	9.22%	9.99%
Common equity	11.60%	12.00%	11.00%	11.90%
Degree days	1,178	1,241	1,459	1,203

(Dollars in millions, except per share amounts)	1992	1991	1990	1989
<b>CONSOLIDATED:</b>				
Operating revenues from continuing operations	\$ 2,900	\$ 3,007	\$ 3,376	\$ 3,344
Income from continuing operations	\$ 136	\$ 167	\$ 142	\$ 142
Income (loss) from discontinued operations	(686)	(255)	(201)	64
Net income (loss)	(550)	(88)	(59)	206
Dividends on preferred stock	16	16	17	13
Preferred stock original issue discount				
Net income (loss) applicable to common stock	\$ (566)	\$ (104)	\$ (76)	\$ 193
Net income (loss) per share of common stock:				
Continuing operations	\$ 1.60	\$ 2.09	\$ 1.78	\$ 1.98
Discontinued operations	(9.17)	(3.54)	(2.87)	.99
	\$ (7.57)	\$ (1.45)	\$ (1.09)	\$ 2.97
Cash dividends per share of common stock	\$ .44	\$ 2.62	\$ 3.48	\$ 3.48
Book value per share	\$ 9.44	\$ 19.74	\$ 23.07	\$ 27.10
Capital expenditures of continuing operations	\$ 329	\$ 335	\$ 386	\$ 340
Total assets	\$ 5,414	\$ 5,462	\$ 5,702	\$ 5,874
Capitalization:				
Short-term debt	\$ 215	\$ 123	\$ 491	\$ 637
Long-term debt due within one year	217	25	30	30
Long-term debt	1,774	1,776	1,161	1,045
Long-term debt of ESOP	141	149	163	173
Obligations under capital leases				
Preferred stocks of a subsidiary:				
Redeemable				60
Nonredeemable	195	195	145	70
Preferred stock	258	258	258	258
Common stock	859	1,458	1,385	1,331
Retained earnings		146	419	738
Less deferred compensation relating to ESOP	(148)	(163)	(173)	(189)
Total capitalization	\$ 3,511	\$ 3,967	\$ 3,879	\$ 4,153
Number of employees	9,884	40,953	42,370	43,891
<b>SOCALGAS:</b>				
Gas revenues:				
Residential	\$ 1,484	\$ 1,674	\$ 1,548	\$ 1,484
Commercial/industrial	836	977	1,057	1,016
Utility electric generation	195	149	235	483
Wholesale	129	145	165	192
Exchange	6	7	8	8
Gas revenues in rates	2,650	2,952	3,013	3,183
Regulatory balancing accounts and other	190	(22)	200	92
Total operating revenue	\$ 2,840	\$ 2,930	\$ 3,213	\$ 3,275
Gas volumes delivered (billion cubic feet):				
Residential	244	249	262	255
Commercial/industrial	363	460	436	400
Utility electric generation	221	170	159	202
Wholesale	149	142	139	146
Exchange	24	26	30	30
Total	1,001	1,047	1,026	1,033
Core	335	351	372	364
Noncore	666	696	654	669
Total	1,001	1,047	1,026	1,033
Gas volumes sold	355	411	515	594
Gas volumes transported or exchanged	646	636	511	439
Total	1,001	1,047	1,026	1,033
Number of customers:				
Residential	4,445,500	4,429,896	4,381,563	4,295,838
Commercial	189,364	193,051	193,409	192,269
Industrial	24,419	25,642	26,530	26,957
Utility electric generation/wholesale	10	10	10	9
Total number of customers	4,659,293	4,648,599	4,601,512	4,515,073
Gas purchased (billion cubic feet):				
Market gas:				
30-day	21	140	149	202
Other	198	168	226	161
Total market gas purchased	219	308	375	363
Affiliates	99	99	103	104
Other long-term supplies	42	39	53	149
Total gas purchased	360	446	531	616
Average cost of gas purchased excluding fixed costs (per thousand cubic feet)	\$ 2.24	\$ 2.40	\$ 2.59	\$ 2.46
Weighted average rate base	\$ 2,720	\$ 2,663	\$ 2,549	\$ 2,386

Authorized rate of return on:				
Rate base	10.49%	10.79%	10.75%	10.96%
Common equity	12.65%	13.00%	13.00%	13.00%
Degree days	1,258	1,409	1,432	1,344

(Dollars in millions, except per share amounts)

	1988	1987	1986
<b>CONSOLIDATED:</b>			
Operating revenues from continuing operations	\$ 3,301	\$ 3,385	\$ 3,691
Income from continuing operations	\$ 142	\$ 148	\$ 138
Income (loss) from discontinued operations	75	101	(56)
Net income (loss)	217	249	82
Dividends on preferred stock	6	6	6
Preferred stock original issue discount			
Net income (loss) applicable to common stock	\$ 211	\$ 243	\$ 76
Net income (loss) per share of common stock:			
Continuing operations	\$ 2.20	\$ 2.40	\$ 2.27
Discontinued operations	1.23	1.70	(.96)
	\$ 3.43	\$ 4.10	\$ 1.31
Cash dividends per share of common stock	\$ 3.48	\$ 3.48	\$ 3.48
Book value per share	\$ 28.26	\$ 27.05	\$ 26.21
Capital expenditures of continuing operations	\$ 351	\$ 328	\$ 332
Total assets	\$ 5,496	\$ 4,374	\$ 4,584
Capitalization:			
Short-term debt	\$ 572	\$ 128	\$ 469
Long-term debt due within one year	65	72	16
Long-term debt	1,220	1,067	1,194
Long-term debt of ESOP	31	38	44
Obligations under capital leases	25	26	27
Preferred stocks of a subsidiary:			
Redeemable	60	60	60
Nonredeemable	20	20	20
Preferred stock	110	110	110
Common stock	1,066	875	855
Retained earnings	770	771	734
Less deferred compensation relating to ESOP	(31)	(38)	(44)
Total capitalization	\$ 3,908	\$ 3,129	\$ 3,485
Number of employees	40,538	27,928	26,571
<b>SOCALGAS:</b>			
Gas revenues:			
Residential	\$ 1,482	\$ 1,496	\$ 1,275
Commercial/industrial	1,008	1,059	1,068
Utility electric generation	554	662	610
Wholesale	252	302	362
Exchange	12	18	19
Gas revenues in rates	3,308	3,537	3,334
Regulatory balancing accounts and other	(86)	(225)	274
Total operating revenue	\$ 3,222	\$ 3,312	\$ 3,608
Gas volumes delivered (billion cubic feet):			
Residential	253	259	234
Commercial/industrial	344	269	223
Utility electric generation	199	309	225
Wholesale	144	159	124
Exchange	39	55	55
Total	979	1,051	861
Core	n/a	n/a	n/a
Noncore	n/a	n/a	n/a
Total	979	1,051	861
Gas volumes sold	654	759	767
Gas volumes transported or exchanged	325	292	94
Total	979	1,051	861
Number of customers:			
Residential	4,196,010	4,086,365	3,969,671
Commercial	190,908	189,611	186,773
Industrial	27,133	27,227	27,942
Utility electric generation/wholesale	9	8	8
Total number of customers	4,414,060	4,303,211	4,184,394
Gas purchased (billion cubic feet):			
Market gas:			
30-day	219	271	242
Other	87	48	
Total market gas purchased	306	319	242
Affiliates	118	113	113
Other long-term supplies	247	343	421
Total gas purchased	671	775	776

Average cost of gas purchased excluding fixed costs (per thousand cubic feet)	\$ 2.39	\$ 2.20	\$ 2.52
Weighted average rate base	\$ 2,268	\$ 2,167	\$ 2,092
Authorized rate of return on:			
Rate base	10.93%	11.51%	12.74%
Common equity	12.75%	13.90%	14.60%
Degree days	1,354	1,498	1,058

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LIST OF SUBSIDIARIES  
OF PACIFIC ENTERPRISES  
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Burney Mountain Power  
Central Plants, Inc.  
EcoTrans OEM Corporation  
Energy Alliance I  
Ensource  
FTM Sports Corporation  
Landfill Control Technologies  
Mammoth Geothermal Company  
Mammoth Power Company  
Mt. Lassen Power  
Pacific Enerchange  
Pacific Energy  
Pacific Energy Leasing  
Pacific Energy Resources Incorporated  
Pacific Enterprises  
Pacific Enterprises ABC Corporation  
Pacific Enterprises Commercial Loans, Inc.  
Pacific Enterprises Energy Management Services  
Pacific Enterprises Energy Services  
Pacific Enterprises International  
Pacific Enterprises International (Cayman I)  
Pacific Enterprises International (Cayman II)  
Pacific Enterprises International Argentina I  
Pacific Enterprises International Argentina II  
Pacific Enterprises International Holdings I  
Pacific Enterprises International Holdings II  
Pacific Enterprises International Indonesia  
Pacific Enterprises International Latin America  
Pacific Enterprises International Mexico I  
Pacific Enterprises International Mexico II  
Pacific Enterprises International Mexico III  
Pacific Enterprises Leasing Company  
Pacific Enterprises LNG Company  
Pacific Enterprises Oil Company  
Pacific Enterprises Oil Company (Canada)  
Pacific Enterprises Oil Company (USA)  
Pacific Enterprises Oil Company (Western)  
Pacific Gas Gathering Company  
Pacific Geothermal Company  
Pacific Hydropower Company  
Pacific Interstate Company  
Pacific Interstate Mojave Company  
Pacific Interstate Offshore Company  
Pacific Interstate Transmission Company  
Pacific Interstate Transmission Company (Arctic)  
Pacific Library Tower  
Pacific Lighting Corporation  
Pacific Lighting Gas Development Company

Pacific Lighting Land Company  
Pacific Lighting Real Estate Group  
Pacific Offshore Pipeline Company  
Pacific Oroville Power, Inc.  
Pacific Penobscot Power Company  
Pacific Power Plant Operations  
Pacific Recovery Corporation  
Pacific Synthetic Fuel Company  
Pacific Western Resources Company  
Pacific Wood Fuels Company  
Pacific Wood Services Company  
Pay'n Save Drug Stores, Incorporated  
PEI Mexico Service Corporation  
Penstock Power Company  
Presley RAC Finance Co., Inc.  
Presley-Home Mac Finance Co., Inc.  
Southern California Gas Company  
Southern California Gas Tower  
8309 Tujunga Avenue Corp.



EXHIBIT 23.01

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 2-96782, 33-26357, 2-66833, 2-96781, 33-21908 and 33-54055 of Pacific Enterprises on Forms S-8 and Registration Statement Nos. 33-24830 and 33-44338 of Pacific Enterprises on Forms S-3 of our reports dated January 28, 1996, appearing in and incorporated by reference in this Annual Report on form 10-K of Pacific Enterprises for the year ended December 31, 1996.

DELOITTE & TOUCHE LLP

Los Angeles, California  
March 26, 1997



THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED STATEMENT OF CONSOLIDATED INCOME, BALANCE SHEET, AND CASH FLOWS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000075527  
PACIFIC ENTERPRISES  
1,000,000

12-MOS	DEC-31-1995	DEC-31-1996	PER-BOOK
	3,167		
	185		
	1161		
	552		
		121	
		5,186	
			1,095
	0		
	314		
1,360	0		
		80	
	1,095		
	262		
	0		
0			
149	0		
0			
		0	
2,240			
5,186			
	2,503		
	151		
	0		
	1,955		
	422		
		25	
422			
	97		
		203	
	7		
196			
	118		
	0		
	608		
		2.37	
		2.37	