

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[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 1-1402

SOUTHERN CALIFORNIA GAS COMPANY

(Exact name of Registrant as specified in its charter)

CALIFORNIA

95-1240705

(State of Incorporation)

(IRS Employer Identification
No.)

555 WEST FIFTH STREET
LOS ANGELES, CALIFORNIA

90013-1011

(Address of principal executive
offices)

(Zip code)

(213) 244-1200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS

NAME OF EACH EXCHANGE
ON WHICH REGISTERED

Preferred Stock

Pacific Stock Exchange

6% Cumulative Preferred--Series A
7 3/4% Series Preferred Stock

First Mortgage Bonds

New York Stock Exchange

Series Y, due 2021 (8 3/4%)
Series Z, due 2002 (6 7/8%)
Series AA, due 1997 (6 1/2%)
Series BB, due 2023 (7 3/8%)
Series CC, due 1998 (5 1/4%)
Series DD, due 2023 (7 1/2%)
Series EE, due 2025 (6 7/8%)
Series FF, due 2003 (5 3/4%)

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 (Preferred Stock) held by non-affiliates at March 17, 1997, was approximately \$94 million. This amount excludes the market value of 49,668 shares of Preferred Stock held by Registrant's parent, Pacific Enterprises. All of the Registrant's Common Stock is owned by Pacific Enterprises.

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 III

Information contained under the captions "Election of Directors," "Share Ownership of Directors and Executive Officers" and "Executive Compensation" in Registrant's Information Statement for its Annual Meeting of Shareholders scheduled to be held on May 6, 1997.

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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 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.

PART I

ITEM 1. BUSINESS

Southern California Gas Company ("The Gas Company" or the "Company") is a public utility owning and operating a natural gas distribution, transmission and storage system that supplies natural gas in 535 cities and communities throughout a 23,000-square mile service territory with a population of approximately 17.4 million, comprising most of southern California and part of central California. The Gas Company is the principal subsidiary of Pacific Enterprises (the "Parent").

The Gas Company is the nation's largest natural gas distribution utility. It serves residential, commercial, industrial, utility electric generation and wholesale customers through approximately 4.8 million meters in its service area. The Company's markets are separated into core and noncore customers. Core customers consist of approximately 4.8 million meters (4.6 million residential and 200,000 small commercial and industrial). The noncore market consists of approximately 1,600 customers which include utility electric generation, wholesale and large commercial and industrial customers. Most noncore customers procure their own gas rather than purchase gas through the Company.

The Company is subject to regulation by the California Public Utilities Commission ("CPUC") which, among other things, establishes the rates the Company may charge for gas service, including an authorized rate of return on investment. Under current ratemaking policies, the Company's 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 the Company's service area, and electric industry restructuring may also affect the Company's future performance.

For 1997, the CPUC has authorized the Company 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. The Company has achieved or exceeded its authorized rate of return on rate base for the last fourteen consecutive years.

The Gas Company was incorporated in California in 1910. Its principal executive offices are located at 555 West Fifth Street, Los Angeles, California 90013 and its telephone number is (213) 244-1200.

OPERATING STATISTICS

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

OPERATING STATISTICS

	YEAR ENDED DECEMBER 31				
	1996	1995	1994	1993	1992
Gas Sales, Transportation & Exchange 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
Volumes (millions of cubic feet):					
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
Revenues (per thousand cubic feet):					
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
Customers					
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

(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

The Gas Company 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]

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

The Gas Company's 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 the Company's 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.

The Gas Company 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 The Gas Company. Noncore customers and large core customers have the option of purchasing gas either from The Gas Company or from other sources (such as brokers or producers) for delivery through the Company's transmission and distribution system. Smaller 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 the Company's core market. Although the revenues from transportation throughput are less than for gas sales, The Gas Company generally earns the same margin whether the Company 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--Operating Results.")

The Gas Company 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 the Company may offer for sale to noncore customers are the same supplies that it purchases to serve its core customers.

The Gas Company also provides a gas storage service 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, The Gas Company stored approximately 11 billion cubic feet of customer-owned gas.

DEMAND FOR GAS

Natural gas is a principal energy source in the Company's 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 uses and clothes drying, and with other fuels for large industrial, commercial and UEG uses. Growth in The Gas Company's markets is largely dependent upon the health and expansion of the California economy. The Company 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 the Company's 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, they accounted for approximately 16% of total gas revenues and 64% of total gas volumes delivered. External factors such as weather, electric deregulation, 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 affected by the price and availability of electric power generated in other areas and purchased by the Company's 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 the Company transports for electric utilities (currently, approximately 16% of the Company's annual throughput) may be adversely affected by increased use of electricity generated by producers outside the Company's 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 The Gas Company's service area, the Company's 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 the Company's system. The decrease in revenues from enhanced oil recovery customers is subject to full balancing account treatment, except for a 5% incentive to the Company, and therefore, does not have a material impact on earnings. Bypass of other Company markets may also occur and the Company 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. The Company is continuing to reduce its costs to maintain competitive rates to transportation customers.

To respond to bypass, the Company 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 the Company's costs that eliminate subsidization of core customer rates by noncore customers. This allocation flexibility, together with negotiating authority, has enabled the Company to better compete with new interstate pipelines for noncore customers. In addition, under a capacity brokering program, for a fee, the Company 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 Result of Operations--Company Operations-- Ratemaking Procedures.") has improved the Company's competitiveness by reducing the cost of transportation service to noncore customers.

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

Most of the natural gas delivered by The Gas Company is produced outside of California. These supplies are delivered to the Company's 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 The Gas Company 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").

The Gas Company 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 from 2.25 Bcf per day to 1.45 Bcf per day. The Company's 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.

The Company 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 the Company and the other remaining firm service customers, thus reducing the Company's 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 The Gas Company 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 the Company.

** 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 ranging from one month to ten years based on spot prices) accounted for approximately 68% of total gas volumes purchased by the Company 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.

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

RATES AND REGULATION

The Gas Company 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 an opportunity to earn a reasonable return on investment. The regulatory structure is complex and has a very substantial impact on the profitability of the Company.

CURRENT RATEMAKING PROCEDURES

Under current ratemaking procedures, the return that the Company 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, the Company's 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 by the Company's 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--Rate-making Procedures.")

The Gas Company's 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 customer classes 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 the Company's cost of gas with the average market price of 30-day firm spot supplies delivered to the Company's service area and permits full recovery of all costs within a tolerance band above the 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. 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. The Company is currently in discussions with the CPUC to extend the GCIM program.

PERFORMANCE BASED REGULATION

The Company 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 the Company 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. In late 1996, the Company increased the amount of the proposed rate reduction to \$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, the Company 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, the Company 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.

ENVIRONMENTAL MATTERS

The Gas Company has identified and reported to California environmental authorities 42 former gas manufacturing sites for which it (together with other utilities as to 21 of the sites) may have remedial obligations under environmental laws. 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 is one of a large number of major corporations that have been identified as a potentially responsible party for environmental remediation of three industrial waste disposal sites and two landfill sites.

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

At December 31, 1996, the Company's 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, the Company believes that compliance with environmental laws and regulations will not have a material adverse effect on its results of operations or financial position.

EMPLOYEES

The Company employs approximately 6,917 persons. Most field, clerical and technical employees of the Company 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.

MERGER OF THE PARENT

On October 14, 1996, the Parent and Enova Corporation ("Enova"), the parent of San Diego Gas & Electric Company, announced a strategic merger of equals. The merger was approved by the shareholders of the Parent and Enova on March 11, 1997. The merger is subject to approval by certain governmental and regulatory agencies, including the CPUC, the Securities and Exchange Commission and the Department of Justice. Approval of the merger is expected to occur in late 1997.

MANAGEMENT

The executive officers of Southern California Gas Company are as follows:

NAME	AGE	POSITION	BECAME AN EXECUTIVE OFFICER
Warren I. Mitchell.....	59	President	August 1981
Larry J. Dagley.....	48	Senior Vice President and Chief Financial Officer	August 1995
Debra L. Reed.....	40	Senior Vice President	August 1988
Lee M. Stewart.....	51	Senior Vice President	November 1990
Dennis V. Arriola.....	36	Vice President and Treasurer	August 1994
Paul J. Cardenas.....	50	Vice President	January 1995
Pamela J. Fair.....	38	Vice President	January 1995
Leslie E. LoBaugh, Jr.....	51	Vice President and General Counsel	April 1993
Richard M. Morrow.....	47	Vice President	January 1995
Roy M. Rawlings.....	52	Vice President	January 1987
Anne S. Smith.....	43	Vice President	November 1991
George E. Strang.....	57	Vice President	July 1984
Ralph Todaro.....	46	Vice President and Controller	November 1988

All of the Company's executive officers have been employed by the Company, the Parent, or its affiliates in management positions for more than the past 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 the Company 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). Executive officers are elected annually and serve at the pleasure of the Board of Directors. There are no family relationships among any of the Company's executive officers.

ITEM 2. PROPERTIES

At December 31, 1996, The Gas Company 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 The Gas Company, has a 15 percent limited partnership interest in a 52-story office building in downtown Los Angeles. The Gas Company leases, and currently occupies about half of the building.

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 the Company 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 their 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 the Company's security holders.

PART II

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

The Parent owns all of the Company's Common Stock. The information required by this item concerning dividends declared is included in the Statement of Consolidated Shareholders' Equity set forth in Item 8 of this Annual Report. Such information is incorporated herein by reference.

RANGE OF MARKET PRICES OF PREFERRED STOCK

	1996		1995	
	7 3/4%	6%-SERIES A	7 3/4%	6%-SERIES A
Three months ended:				
March 31.....	\$26 1/8-25	\$22 5/8-20 1/2	\$24 3/8-21	\$18 3/4-17 3/8
June 30.....	\$25 3/4-25	\$21 1/2-19 5/8	\$25 1/2-24	\$19 7/8-18
September 30.....	\$25 5/8-25 1/8	\$21 1/4-20 1/8	\$26 1/4-25 1/8	\$21 -19
December 31.....	\$25 3/4-25 1/4	\$21 3/8-20	\$25 3/4-25	\$21 3/4-19 7/8

Market prices for the preferred stock were obtained from the Pacific Stock Exchange. In 1996, the Company redeemed all of the Flexible Auction preferred stock.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data of the Company for 1992 through 1996.

SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31				
	1996	1995	1994	1993	1992
	(THOUSANDS OF DOLLARS)				
Operating revenues.....	\$ 2,421,981	\$ 2,279,308	\$ 2,586,524	\$ 2,811,074	\$ 2,839,925
Net income.....	\$ 201,111	\$ 214,833	\$ 190,513	\$ 193,676	\$ 194,716
Total assets.....	\$ 4,354,089	\$ 4,462,279	\$ 4,775,763	\$ 4,950,220	\$ 4,155,399
Long-term debt.....	\$ 1,090,170	\$ 1,220,136	\$ 1,396,931	\$ 1,235,622	\$ 1,147,198

The Gas Company's parent, Pacific Enterprises, owns 96 percent of the voting stock, including all of the issued and outstanding common stock; therefore, per share data have been omitted.

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

This section includes management's analysis of operating results from 1994 through 1996, and is intended to provide additional information about the Southern California Gas Company's (the Company) capital resources, liquidity and financial performance. 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.

The Company, a subsidiary of Pacific Enterprises (the Parent), is a Los Angeles-based utility engaged in supplying natural gas throughout most of southern and part of central California. The Company is the nation's largest natural gas distribution utility, serving 4.8 million meters and 535 cities and communities throughout a 23,000 square mile service territory with a population of approximately 17.4 million.

The Company markets are separated into core customers and noncore customers. Core customers consist of approximately 4.8 million customers (4.6 million residential and 200,000 small commercial and industrial customers). The noncore market consists of approximately 1,600 large customers which includes nine utility electric generation, three wholesale, and the remainder are large commercial and industrial

customers. Most noncore customers procure their own gas supply rather than purchase gas through the Company.

In 1995, the Parent completed a realignment into business units which established a more flexible design to allow a more rapid response to competitive forces. There are two business units at the Company, one focusing on core distribution customers and the other on large volume gas transportation customers.

During 1996, the Parent announced an agreement to combine its operations with Enova Corporation, the parent company of San Diego Gas & Electric. 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 CPUC. (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	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(DOLLARS IN MILLIONS)		
Operating Activities.....	\$ 638	\$ 663	\$ 150
Capital Expenditures.....	(197)	(231)	(245)
Financing Activities:			
Issuance of Long-Term Debt.....	75		
Payments of Long-Term Debt.....	(153)	(168)	246
Redemption of Preferred Stock.....	(100)		
Short-Term Debt.....	28	(44)	11
Dividends.....	(259)	(242)	(155)
Total Financing Activities.....	(409)	(454)	102
Other.....	(31)	(23)	36
Increase (Decrease) in Cash and Cash Equivalents.....	\$ 1	\$ (45)	\$ 43

CASH FLOWS FROM OPERATING ACTIVITIES

The decrease in cash provided from operating activities to \$638 million in 1996 from \$663 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 later.

The increase in cash provided from operating activities to \$663 million in 1995 from \$150 million in 1994 is primarily due to a payment of \$391 million for the settlement of gas contract issues made in 1994 and increased earnings of the Company as described later.

There are a number of factors that impact the Company's cash flow from operations. These include changes in operating expenses and the authorized return on common equity.

CASH FLOWS FROM INVESTING ACTIVITIES

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

CAPITAL EXPENDITURES	YEAR ENDED DECEMBER 31		
	1996	1995	1994
	(DOLLARS IN MILLIONS)		
Distribution.....	\$ 124	\$ 126	\$ 129
Transmission.....	24	19	24
Storage.....	5	19	22
Other.....	44	67	70
Total.....	\$ 197	\$ 231	\$ 245

Capital expenditures for 1996 are \$34 million lower than 1995, primarily due to the completion in early 1996 of a new customer information system which increased the Company's responsiveness to customer needs and reduced operating costs and less capital required for storage due to a completion of repairs from the 1994 Northridge earthquake.

Capital expenditures for 1995 were \$14 million lower than 1994, primarily the result of reduced investing requirements for connecting new customers.

Capital expenditures are estimated to be approximately \$196 million in 1997 and will be financed primarily by internally generated funds.

CASH FLOWS FROM FINANCING ACTIVITIES

In 1996, \$409 million was used for financing activities. This was primarily the result of a preferred stock redemption of \$100 million, a \$67 million redemption of the Swiss Franc Bonds, repayment of long-term debt, including \$79 million of debt related to the comprehensive settlement (See Note 3 of Notes to Consolidated Financial Statements.) and payment of dividends, partially offset by the issuance of Medium Term Notes in the amount of \$75 million.

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 flow provided by financing activities of \$102 million in 1994 was due to the issuance of long-term debt for financing a comprehensive settlement of gas supply contracts and other regulatory issues.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents were \$14 million, \$13 million and \$58 million at December 31, 1996, 1995 and 1994, respectively. The Company anticipates that cash required in 1997 for capital expenditures, dividends and debt payments will be provided by cash generated from operating activities and existing cash balances.

In addition to cash from ongoing operations, the Parent and the Company have available certain multi-year credit agreements that provide backing for the Company's commercial paper program. At December 31, 1996, all bank lines of credit were unused. (For further discussion, see Note 7 of Notes to Consolidated Financial Statements.)

COMPANY OPERATIONS

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

RATEMAKING PROCEDURES

The Company is regulated by the California Public Utilities Commission (CPUC). It is the responsibility of the CPUC to determine that utilities operate in the best interests of the customer with the opportunity to earn a reasonable return on investment. Current ratemaking procedures are summarized below.

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 the Company 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 sometime during the last half of 1997. For a further discussion of PBR, see Factors Influencing Future Financial 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 the Company's PBR Application. Current rates will remain in effect until PBR is implemented. Separate proceedings are held annually to review the Company's 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. This mechanism substantially eliminates the effect on income of variances in core market demand and gas costs subject to limitations of the Gas Cost Incentive Mechanism (GCIM) and the Comprehensive Settlement. (For further discussion, see Note 3 of Notes to Consolidated Financial Statements.)

GCIM is a pilot program, which compares the Company's cost of gas with a benchmark, calculated at the average market price of 30-day firm spot supplies delivered to the Company's service area and permits full recovery of all costs within a tolerance band above that average. The costs 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 1995-March 1995), the Company's cost of gas was within the tolerance band. There was no reward or penalty in the first year; therefore, 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 benchmark. A filing has been made with the CPUC requesting a reward to shareholders under the procurement portion of the GCIM. The reward amount will be recognized in income when a final CPUC decision has been issued. The Company is currently undergoing proceedings to extend the GCIM program following the model of the pilot. (For further discussion of GCIM, see Note 3 of Notes to Consolidated Financial Statements.)

In 1997, SoCalGas introduced monthly gas pricing for the core commercial and industrial customers. Monthly gas pricing will allow the Company to match the need for short-term debt financing to purchase gas with the revenue stream that is generated on a monthly basis. Monthly gas pricing benefits the customer because the current market price of gas is passed on to the customer as opposed to the traditional weighted average cost of gas (WACOG) approach which has been utilized in prior years.

1994-1996 FINANCIAL RESULTS

Under current utility ratemaking policies, the return that the Company 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 the net investment in utility plant. Thus, the Company's earnings are affected by changes in the authorized rate of return on rate base, the change in the authorized rate base, and by the Company's

ability to control expenses and investment in rate base within the amounts authorized by the CPUC in setting rates. The Company 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 established rates are refunded or collected through a balancing account mechanism. Through balancing account treatment, the Company is allowed to fully recover amounts recorded as core deferred costs or core revenue shortfalls currently or in the future.

Key financial and operating data for the Company are highlighted in the table below.

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(DOLLARS IN MILLIONS)		
Operating revenues.....	\$ 2,422	\$ 2,279	\$ 2,587
Cost of gas distributed.....	\$ 923	\$ 737	\$ 992
Operation and maintenance.....	\$ 725	\$ 760	\$ 827
Net income applicable to Common Stock (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.....	0.4%	(3.4)%	3.4%

- 1996 COMPARED TO 1995 The Company's 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 billion cubic feet more gas in 1996 than in 1995. The increase in revenue was partially offset by a decrease in utility electric generation (UEG) noncore revenues. The decrease in the UEG revenues is due to a reduction in transportation volumes as a result of an abundance of less expensive hydroelectricity resulting from high levels of precipitation last winter.

The Company's cost of gas distributed increased \$186 million in 1996 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.

The Company's operation and maintenance expenses decreased \$35 million in 1996 compared to 1995. The decrease primarily reflects savings resulting from the Company's continued improvements in efficiency and management's close control of expenses and the nonrecurring favorable settlements, totaling \$28.0 million. One settlement was from gas producers for damage incurred to customer and company equipment as a result of impure gas supplies, and the other reflects the resolution of certain environmental insurance claims.

Depreciation and amortization expense increased \$11 million for the year ended 1996 compared to 1995. The increase is partially due to the completion and installation of the Customer Information System in the second quarter of 1996, which was capitalized at \$65 million and has a twenty-year life.

Net income applicable to Common Stock (after preferred dividends) was \$193 million in 1996 compared to \$203 million in 1995. The decline in the Company's earnings 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 the Company anticipates the future 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, the Company believes it will not realize the remaining revenue enhancements that were applied to offset the costs of the Comprehensive Settlement.

- 1995 COMPARED TO 1994 The decrease in operating revenues of \$308 million in 1995 is primarily due to a reduction in the average unit cost of gas and a decrease in noncore transportation volumes. The Company's cost of gas distributed decreased \$255 million in 1995 due to lower volumes of gas purchased for customers and a decrease in the average unit cost of gas. The decrease in transportation volumes was primarily in the utility electric generation market. This was due to an abundance of less expensive hydroelectricity resulting from high levels of precipitation during the 1994-95 winter. The average commodity cost of gas purchased by the Company, excluding fixed charges, for 1995 was \$1.42 per thousand cubic feet, compared to \$1.68 per thousand cubic feet in 1994.

The Company's operation and maintenance 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 applicable to Common Stock (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 The Company has achieved or exceeded the rate of return on rate base authorized by the CPUC for 14 consecutive years. In 1996, the Company 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 11.60% 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, the Company achieved a 10.84% return on rate base compared to a 9.67% authorized return and a 13.89% return on equity compared to a 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.

The Company plans to continue efforts to control costs in 1997. In 1997, the Company is authorized to earn 9.49% return on rate base and 11.6% on common equity. Rate base is expected to remain about level with 1996 results.

OPERATING RESULTS

The table below summarizes the components of the Company's throughput and rates charged to customers for the past three years. Rates include the customer portion of the Comprehensive Settlement (See Note 3 of Notes to Consolidated Financial Statements.). The amount included in rates for 1996, 1995 and 1994 were \$90 million, \$84 million and \$119 million respectively.

	GAS SALES		TRANSPORTATION AND EXCHANGE		TOTAL	
	THROUGHPUT	REVENUE	THROUGHPUT	REVENUE	THROUGHPUT	REVENUE
	(DOLLARS IN MILLIONS, VOLUME IN BILLION CUBIC FEET)					
1996:						
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
1995:						
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
1994:						
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

Although the revenues from transportation throughput are less than from gas sales, the Company generally earns the same margin whether it buys the gas and sells it to the customer or transports gas already owned by the customer. Throughput, the total gas sales and transportation volumes moved through the Company's system, decreased in 1996 compared to 1995 and 1994 as a result of lower demands, primarily by utility electric generators. This resulted from an abundance of inexpensive hydroelectricity resulting from high levels of precipitation last winter reducing the gas demands of UEG customers.

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, the Company 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 operation.

FACTORS INFLUENCING FUTURE FINANCIAL PERFORMANCE

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.

Under current ratemaking policies, Company net income and cash flow will be determined primarily by the allowed rate of return on common equity, changes in 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.

Future regulatory restructuring (including the PBR proposal from the Company), increased competitiveness in the industry (including the continuing threat of customers bypassing the Company's system and obtaining service directly from interstate pipelines), and electric industry restructuring could also affect the Company's future performance.

The following detailed discussion addresses each of the major factors expected to influence future financial performance:

Allowed Rate of Return. For 1997, the Company 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 has also authorized an increase in the common equity component of the Company's 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 in 1997 as in 1996.

Performance Based Regulation. The Company 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 the Company 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. In late 1996, the Company increased the amount of the proposed rate reduction to \$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, the Company would have the opportunity to improve financial performance over the long term to the extent it was able to reduce expenses, increase energy deliveries and generate profits from new products and services.

Under the PBR proposal, the Company would be at risk for certain changes in interest rates and cost of capital, changes in core volumes not caused by weather, and achievement of productivity improvements. The Company 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 the Company's operations. However, the terms of PBR ultimately authorized by the CPUC may contain elements that could result in the Company not meeting all the criteria for continued application of SFAS 71 (See Note 2 of Notes to Consolidated Financial Statements for further discussion of SFAS 71.). Because PBR has not yet been approved, the Company's rates in effect at the end of 1996 will continue in effect in 1997 until PBR is implemented.

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 utility electric generation customers is sensitive to the price and availability of electric power generated in other areas 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 electric restructuring, was signed into law. Implementation of portions of the plan are expected to need federal administrative approval. Future volumes of natural gas the Company transports for electric utilities may be adversely affected by increased use of electricity generated by out-of-state producers. 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 on the Company's financial statements, including the potential effect of the electric

industry restructuring. Although the Company believes that the volume of gas transported 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 discounted future cash flows from the Company's investment in its gas transportation infrastructure is greater than its carrying amount.

Noncore Bypass. The Company's throughput to enhanced oil recovery (EOR) customers in the Kern County area decreased significantly since 1992 because of the bypass of the Company's 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 the Company, and therefore, does not have a material impact on the Company's earnings.

Bypass of other markets may also occur, and the Company 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. The Company is continuing to reduce its costs to maintain competitive rates to transportation customers.

Noncore Pricing. To respond to bypass, the Company has received authorization from the CPUC for expedited review of long-term gas transportation service contracts with some noncore customers at lower than tariff rates. In addition, the CPUC has approved changes in methodology that have minimized subsidization of core customer rates by noncore customers. This allocation flexibility, together with negotiating authority, has enabled the Company to better compete with interstate pipelines for noncore customers. Cost allocation between the core and noncore customer groups remains an important issue, however, in the Company's cost allocation proceedings.

Noncore Throughput. The Company's 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 the Company's system and a downturn in general economic conditions. In addition, many noncore customers are especially sensitive to the price relationship between natural gas and alternative fuels, as they are capable of readily switching from one fuel to another, subject to air quality regulations. The Company 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 described in Note 3 of Notes to Consolidated Financial Statements.

Excess Interstate Pipeline Capacity. The Company has exercised its step-down option on both the El Paso and Transwestern interstate pipeline systems by 300 million cubic feet (MMcf) per day and 450 MMcf per day, respectively, thereby reducing its firm interstate capacity obligation from 2.25 Bcf per day to 1.45 Bcf per day. The Company's requirements to meet demand at the core market is approximately 1.05 Bcf per day or 400 MMcf per day below its capacity obligation. The Company has entered into an approved settlement with Transwestern, and an El Paso settlement is currently pending before the Federal Energy Regulatory Commission (FERC). Both settlements define the amount of the unsubscribed capacity costs that is to be recovered from the remaining firm service customers, thus reducing the Company's exposure to higher annual reservation charges. Under existing regulation in California, unsubscribed capacity costs are included in customer rates.

The Transwestern settlement regarding the excess pipeline capacity was approved by the FERC in 1995. The settlement with Transwestern requires firm customers, including the Company, to subsidize unsubscribed pipeline costs for a five-year period with Transwestern assuming full responsibility after that time.

In 1996, a settlement was reached with El Paso in which customers, including SoCalGas, will pay for a portion of the excess pipeline capacity. The pipeline costs will be recoverable in rates. The customers may also receive credits from El Paso for any unused capacity which is sold to others. The El Paso settlement is for a ten-year period and was approved by a FERC Administrative Law Judge in early 1997. The settlement is now awaiting approval by the FERC. Both agreements help to spread the burden of excess capacity fairly among the pipeline systems and their customers.

The Company believes that the FERC approved settlement with Transwestern and the proposed settlement with El Paso 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 the Company might be required to pay in the future as a result of unsubscribed pipeline capacity. While the inclusion of the unsubscribed pipeline cost in rates may impact the Company's ability to compete in highly contested markets, the Company does not believe its inclusion will have a significant impact on volumes transported.

ENVIRONMENTAL MATTERS. The Company's 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, the Company believes that compliance with these laws will not have a significant impact on its results of operations or financial position. For further discussion of environmental and regulatory matters, see Note 5 of Notes to Consolidated Financial Statements.

UNION CONTRACT. The Company and its 5,000 union workers created a new partnership by reaching an important agreement on wages, hours and working conditions. To remain in effect through March 31, 1999, the agreement recognizes the reality of a competitive market by providing increased workforce flexibility while giving represented employees significant job security. In addition, the unions representing the Company's employees signed a letter in support of the PE/Enova merger.

CALIFORNIA ECONOMY. Growth in the Company's 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.

OTHER INCOME AND INTEREST EXPENSE

OTHER INCOME AND DEDUCTIONS. Other income, which primarily consists of interest income from short-term investments and interest income on regulatory accounts receivable balances, was \$0.5 million, \$6 million and \$17 million in 1996, 1995 and 1994, respectively. The decrease from 1995 is primarily due to 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. This was partially offset by higher interest income on regulatory accounts receivable balances in 1996 compared to 1995. Other--Net expense consists primarily of contributions and amortization of loss on reacquired debt.

INTEREST EXPENSE. Interest expense was \$86 million, \$91 million and \$105 million in 1996, 1995 and 1994, respectively. Interest expense in 1996 was reduced from the 1995 and 1994 levels as a result of the lower long-term debt balance maintained throughout the year, the redemption of \$67 million Swiss Franc bonds and refinancing of Company debt at lower interest rates.

INFORMATION REGARDING FORWARD LOOKING STATEMENT

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 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 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

STATEMENT OF CONSOLIDATED INCOME

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(THOUSANDS OF DOLLARS)		
OPERATING REVENUES.....	\$ 2,421,981	\$ 2,279,308	\$ 2,586,524
OPERATING EXPENSES			
Cost of Gas Distributed.....	922,773	736,605	991,625
Operation.....	642,639	672,864	745,961
Maintenance.....	82,221	86,255	80,980
Depreciation.....	248,096	237,026	233,580
Income Taxes.....	144,213	151,274	145,603
Local Franchise Payments.....	33,716	34,048	41,966
Ad Valorem Taxes.....	35,373	34,974	36,901
Payroll and Other Taxes.....	26,637	26,431	31,281
Total	2,135,668	1,979,477	2,307,897
Net operating revenue.....	286,313	299,831	278,627
OTHER INCOME AND (DEDUCTIONS)			
Interest Income.....	1,316	7,566	6,623
Regulatory Interest.....	4,324	1,442	14,046
Allowance for Equity Funds Used During Construction.....	3,894	5,495	2,394
Income Taxes on Non-Operating Income.....	(3,581)	(277)	941
Other--Net.....	(5,442)	(8,606)	(7,033)
Total.....	511	5,620	16,971
INTEREST CHARGES AND (CREDITS)			
Interest on Long-Term Debt.....	79,547	86,864	89,023
Other Interest.....	8,311	6,938	17,425
Allowance for Borrowed Funds Used During Construction.....	(2,145)	(3,184)	(1,363)
Total.....	85,713	90,618	105,085
Net Income.....	201,111	214,833	190,513
Dividends on Preferred Stock.....	8,228	11,613	10,468
Net Income Applicable to Common Stock.....	\$ 192,883	\$ 203,220	\$ 180,045

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEET

	DECEMBER 31,	
	1996	1995
	(THOUSANDS OF DOLLARS)	
ASSETS		
Utility Plant--at original cost.....	\$ 5,963,047	\$ 5,807,940
Less: Accumulated Depreciation.....	2,795,726	2,594,713
Utility plant--net.....	3,167,321	3,213,227
Current Assets:		
Cash and cash equivalents.....	13,601	12,611
Accounts receivable--trade (less allowance for doubtful receivables of \$16,317 in 1996 and \$13,456 in 1995).....	412,934	398,515
Regulatory accounts receivable--net.....	295,810	260,573
Deferred income taxes.....	22,033	25,953
Gas in storage.....	27,644	54,782
Materials and supplies.....	13,222	14,504
Prepaid expenses.....	13,662	32,593
Income Taxes Receivable.....	11,482	--
Total current assets.....	810,388	799,531
Regulatory Assets.....	376,380	449,521
Total.....	\$ 4,354,089	\$ 4,462,279
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common equity:		
Common stock.....	\$ 834,889	\$ 834,889
Retained earnings.....	555,253	613,445
Total common equity.....	1,390,142	1,448,334
Preferred stock.....	96,551	196,551
Long-term debt.....	1,090,170	1,220,136
Total capitalization.....	2,576,863	2,865,021
Current Liabilities:		
Short-term debt.....	262,366	233,817
Accounts payable--trade.....	177,758	162,670
Accounts payable--affiliates.....	44,290	9,734
Accounts payable--other.....	296,379	255,900
Accrued taxes and franchise payments.....	27,943	45,933
Long-term debt due within one year.....	147,000	95,283
Accrued interest.....	40,664	43,480
Other accrued liabilities.....	62,955	50,678
Total current liabilities.....	1,059,355	897,495
Customer Advances for Construction.....	42,433	47,029
Deferred Income Taxes.....	404,982	404,308
Deferred Investment Tax Credits.....	63,997	66,983
Other Deferred Credits.....	206,459	181,443
Total.....	\$ 4,354,089	\$ 4,462,279

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

STATEMENT OF CONSOLIDATED CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(THOUSANDS OF DOLLARS)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income.....	\$ 201,111	\$ 214,833	\$ 190,513
Items Not Requiring Cash:			
Depreciation.....	248,096	237,026	233,580
Deferred income taxes.....	15,139	59,544	(49,432)
Deferred investment tax credits.....	(2,986)	(2,986)	(3,024)
Allowance for funds used during construction.....	(6,039)	(8,679)	(3,757)
Other.....	23,502	53,296	(18,983)
Net Change in Other Working Capital Components:			
Accounts receivable.....	(14,419)	125,460	(20,667)
Regulatory accounts receivable.....	50,314	183,723	231,006
Gas in storage.....	27,138	8,688	(10,356)
Other current assets.....	20,213	12,824	(16,332)
Accounts payable.....	90,123	(16,171)	(521,172)
Accrued taxes and franchise payments.....	(17,990)	(71,643)	30,386
Deferred income taxes.....	(5,677)	(76,001)	4,914
Other current liabilities.....	9,461	(57,144)	103,451
Net cash provided by operating activities.....	637,986	662,770	150,127
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital Expenditures for Utility Plant.....	(197,586)	(230,969)	(244,721)
(Increase) Decrease in Other Assets--Net.....	(30,407)	(22,492)	35,267
Net cash used in investing activities.....	(227,993)	(253,461)	(209,454)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends.....	(259,303)	(242,333)	(154,723)
Issuance of Long-Term Debt.....	75,000		245,847
Payments of Long-Term Debt.....	(153,249)	(167,512)	
Sale of Preferred Stock.....			
Redemption of Preferred Stock.....	(100,000)		
Increase (Decrease) in Short-Term Debt.....	28,549	(44,384)	11,201
Net cash provided by (used in) financing activities.....	(409,003)	(454,229)	102,325
Increase (Decrease) in Cash and Cash Equivalents.....	990	(44,920)	42,998
Cash and Cash Equivalents--January 1.....	12,611	57,531	14,533
Cash and Cash Equivalents--December 31.....	\$ 13,601	\$ 12,611	\$ 57,531
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Paid During the Year for:			
Interest (net of amount capitalized).....	\$ 84,891	\$ 81,932	\$ 107,088
Income taxes.....	\$ 127,137	\$ 231,987	\$ 89,135

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	RETAINED EARNINGS
(THOUSANDS OF DOLLARS)			
BALANCE AT DECEMBER 31, 1993.....	\$ 196,551	\$ 834,889	\$ 607,250
Net Income.....			190,513
Cash Dividends Declared:			
Preferred stock.....			(10,468)
Common stock.....			(144,255)
BALANCE AT DECEMBER 31, 1994.....	196,551	834,889	643,040
Net Income.....			214,833
Cash Dividends Declared:			
Preferred stock.....			(11,613)
Common stock.....			(232,815)
BALANCE AT DECEMBER 31, 1995.....	\$ 196,551	\$ 834,889	\$ 613,445
Net Income.....			201,111
Cash Dividends Declared:			
Preferred stock.....			(8,228)
Common stock.....			(251,075)
Preferred Stock Redeemed (100 shares).....	(100,000)		
BALANCE AT DECEMBER 31, 1996.....	\$ 96,551	\$ 834,899	\$ 555,253

The number of shares of preferred stock and common stock authorized and outstanding at December 31, 1996 and 1995, is set forth in Note 10 of Notes to Consolidated Financial Statements.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

1. MERGER AGREEMENT WITH ENOVA CORPORATION

On October 14, 1996, Pacific Enterprises (Parent) and Enova Corporation (Enova), the parent company of San Diego Gas and Electric, 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 Parent 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 Parent'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, SoCalGas, and San Diego Gas & Electric 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 governmental and regulatory agencies including the California Public Utilities Commission, 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 Parent and Enova have formed a joint venture to provide integrated energy and energy related products and services.

The Parent 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 Parent must cause its ownership in these facilities to be not more than 50% prior to the completion of the business combination. The Parent is considering several alternatives to accomplish this result including the sale of all or part of these facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southern California Gas Company (the Company) is a subsidiary of Pacific Enterprises (Parent). The Parent owns approximately 96% of the Company's voting stock, including all of its issued and outstanding common stock; therefore, per share data have been omitted.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. One subsidiary has a 15% limited partnership interest in a 52-story office building in which the Company occupies approximately one-half of the leasable space. Investments in 50% or less owned joint ventures and partnerships are accounted for by the equity 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
REGULATION

In conformity with generally accepted accounting principles (GAAP), the Company's accounting policies reflect the financial effects of rate regulation authorized by the California Public Utilities Commission (CPUC). The Company applies the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." 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 \$376 million of regulatory assets which included the following: costs of reacquiring debt--\$47 million; Comprehensive Settlement costs (See Note 3)--\$101 million; deferred income taxes--\$93 million (See Note 4); environmental remediation-- \$77 million (See Note 5); and other costs--\$58 million. Maintenance of the regulatory accounts and regulatory accounts receivable represents the only difference in the application of GAAP for the Company 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. The Company makes periodic filings with the CPUC to adjust future gas rates to account for such variances.

GAS IN STORAGE

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 the Company, 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.

UTILITY PLANT

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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. REGULATORY MATTERS

RESTRUCTURING OF GAS SUPPLY CONTRACTS

In 1993, the Company and its gas supply affiliates restructured long-term gas supply contracts with suppliers of California offshore and Canadian gas. In the past, the Company's 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 the Company 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 the Company to its customers for the five-year period commencing August 1, 1994. Rates charged to the customers are established based upon the Company's recorded throughput to these customers for 1991. The Company 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 its 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 the Company's 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 the Company's 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 the Company's cost of gas with a benchmark level, which is the average price of 30-day firm spot supplies delivered to the Company's market area.

The Company 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 the Company's cost of gas exceeds the tolerance level, then the excess cost will be shared equally between customers and

3. REGULATORY MATTERS (CONTINUED)

shareholders. All savings from gas purchased below the benchmark are shared equally between customers and shareholders.

The Company is currently in discussions 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 the Company 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. The Company 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 the Company 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 superceded by PBR (See "Ratemaking Procedures" discussed above.).

The Company recorded the impact of the Comprehensive Settlement in 1993. In 1996, an additional charge of \$26.6 million was recorded for revenue enhancements recorded as part of the Comprehensive Settlement which will not be collected. See detailed explanation in prior section entitled "Noncore Customer Rates."

Regulatory Accounts Receivable and Regulatory Assets include a total of approximately \$191 million and \$259 million in 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, the Company has \$186 million in commercial paper remaining outstanding related to the Comprehensive Settlement (See Note 7).

4. INCOME TAXES

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

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
	(THOUSANDS OF DOLLARS)		
Computed statutory federal income tax expense.....	\$ 122,117	\$ 128,235	\$ 117,311
Increase (reductions) resulting from:			
Excess book over tax depreciation.....	22,752	19,638	17,473
State income taxes--net of federal income tax benefit.....	18,596	21,287	19,119
Capitalized expenses not deferred.....	(11,064)	(10,058)	(6,589)
Amortization of deferred investment tax credits.....	(2,987)	(2,986)	(3,024)
Resolution of proposed tax deficiency.....	(3,834)	(2,452)	3,850
Other--net.....	2,217	(2,113)	(3,478)
Total income tax expense.....	\$ 147,797	\$ 151,551	\$ 144,662

The components of income tax expense are as follows:

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
	(THOUSANDS OF DOLLARS)		
Federal			
Current.....	\$ 100,213	\$ 119,489	\$ 147,647
Deferred.....	17,618	310	(32,500)
	117,831	119,799	115,147
State			
Current.....	29,624	37,116	44,289
Deferred.....	340	(5,364)	(14,774)
	29,964	31,752	29,515
Total			
Current.....	129,837	156,605	191,936
Deferred.....	17,958	(5,054)	(47,274)
	\$ 147,795	\$ 151,551	\$ 144,662

4. INCOME TAXES (CONTINUED)

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

	DECEMBER 31,					
	1996			1995		
	ASSETS	LIABILITIES	TOTAL	ASSETS	LIABILITIES	TOTAL
	(THOUSANDS OF DOLLARS)					
Depreciation.....	--	\$ (455,701)	\$ (455,701)	--	\$ (449,571)	\$ (449,571)
Comprehensive Settlement	\$ 133,369	(46,914)	86,455	\$ 159,294	(77,504)	81,790
Regulatory accounts receivable.....	--	(131,906)	(131,906)	--	(103,889)	(103,889)
Deferred investment tax credits.....	28,056	--	28,056	29,673	--	29,673
Customer advances for construction.....	20,357	--	20,357	20,787	--	20,787
Regulatory asset.....	--	(23,651)	(23,651)	--	(30,144)	(30,144)
Other regulatory.....	143,276	(49,835)	93,441	118,623	(45,624)	72,999
Total deferred income tax assets (liabilities).....	\$ 325,058	\$ (708,007)	\$ (382,949)	\$ 328,377	\$ (706,732)	\$ (378,355)

The Parent files a consolidated federal income tax return and combined California franchise tax reports which include the Company and the Parent's other subsidiaries. The Company pays the amount of taxes applicable to itself had it filed a separate return.

The Company 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, the Company 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.

5. COMMITMENTS AND CONTINGENT LIABILITIES

ENVIRONMENTAL OBLIGATIONS

The Company 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 has been named as a potentially responsible party 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, the Company 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, the Company's estimated remaining investigation and remediation liability was \$77 million, of which it is authorized to recover 90% through the mechanism discussed above. The estimated liability is subject to future adjustment pending further investigation. 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 financial statements.

5. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

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 shown on the balance sheet.

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 financial statements.

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.

6. LEASES

The Company has 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.

Rental expense under operating leases was \$45 million, \$45 million and \$42 million in 1996, 1995 and 1994, respectively. The following is a schedule of future minimum operating lease commitments as of December 31, 1996:

YEAR ENDING DECEMBER 31:	FUTURE MINIMUM LEASE PAYMENTS
-----	-----
	(THOUSANDS OF DOLLARS)
1997.....	\$ 19,027
1998.....	16,757
1999.....	16,647
2000.....	16,788
2001.....	16,576
Later years.....	137,531

Total.....	\$ 223,326

7. COMPENSATING BALANCES AND SHORT-TERM BORROWING ARRANGEMENTS

The Company has a \$650 million multi-year credit agreement requiring annual fees of .07%. The interest rate on this line varies and is derived from formulas based on market rates and the Company's credit ratings. The multi-year credit agreement expires in February 2001. At December 31, 1996, the bank line of credit was unused. The bank line of credit provides backing for the Company's commercial paper program.

7. COMPENSATING BALANCES AND SHORT-TERM BORROWING ARRANGEMENTS (CONTINUED)

At December 31, 1996 and 1995, the Company 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 3). 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 \$650 million multi-year credit agreement to refinance the debt on a long-term basis if short-term financing is not available.

8. LONG-TERM DEBT

	DECEMBER 31,	
	1996	1995
	(THOUSANDS OF DOLLARS)	
FIRST MORTGAGE BONDS:		
6 1/2% December 15, 1997.....	\$ 125,000	\$ 125,000
5 1/4% March 1, 1998.....	100,000	100,000
6 7/8% August 15, 2002.....	100,000	100,000
5 3/4% November 15, 2003.....	100,000	100,000
8 3/4% October 1, 2021.....	150,000	150,000
7 3/8% March 1, 2023.....	100,000	100,000
7 1/2% June 15, 2023.....	125,000	125,000
6 7/8% November 1, 2025.....	175,000	175,000
OTHER LONG-TERM DEBT:		
5.98% Notes, August 28, 1997.....	22,000	22,000
6.21% Notes, November 1, 1999.....	75,000	
8 3/4% Notes, July 6, 2000.....	30,000	30,000
SFr. 150,000,000 7 1/2% Foreign Interest Payment Securities, May 14, 1996.....		75,282
SFr. 15,695,000 6 3/8% Foreign Interest Payment Securities, May 14, 2006.....	7,877	
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%).....	47,250	47,250
5.33% Commercial Paper, February 8, 2001.....	95,753	181,304
Total outstanding.....	1,252,880	1,330,836
Less:		
Payments due within one year.....	147,000	95,283
Unamortized debt discount less premium.....	15,715	15,417
	162,715	110,700
Long-Term Debt.....	\$ 1,090,165	\$ 1,220,136

The annual principal payment requirements of long-term debt for the years 1997, 1998, 1999, 2000 and 2001 are \$147 million, \$147 million, \$75 million, \$30 million and \$96 million, respectively. Substantially all of utility plant serves as collateral for the First Mortgage Bonds.

CURRENCY RATE SWAPS

In February 1986, the Company issued SFr. 100 million of 5 1/8% bonds which will mature on February 6, 1998. The Company 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, the Company 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.

8. LONG-TERM DEBT (CONTINUED)

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%.

9. 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, account 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 carrying amount of the currency swaps approximates fair value.

The fair value of the Company's 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 the Company 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.

	1996		1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(DOLLARS IN MILLIONS)			
Long-Term Debt.....	\$ 1,237	\$ 1,248	\$ 1,315	\$ 1,278
Preferred Stocks.....	\$ 97	\$ 93	\$ 97	\$ 93

As a result of the GCIM (See Note 3), the Company 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. The Company's 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 financial statements.

10. CAPITAL STOCK

The amount of capital stock outstanding at December 31 is as follows:

	DECEMBER 31, 1996		DECEMBER 31, 1995	
	NUMBER OF SHARES	THOUSANDS OF DOLLARS	NUMBER OF SHARES	THOUSANDS OF DOLLARS
PREFERRED STOCK:				
cumulative, voting (a) (b) (c):				
6%, \$25 par value.....	79,011	\$ 1,975	79,011	\$ 1,975
6%, Series A, \$25 par value.....	783,032	19,576	783,032	19,576
Series Preferred, no par value				
Flexible Auction, Series A.....			500	50,000
Flexible Auction, Series C.....			500	50,000
7 3/4%, \$25 Stated Value.....	3,000,000	75,000	3,000,000	75,000
		-----		-----
Total.....		\$ 96,551		\$ 196,551
		-----		-----
PREFERENCE STOCK--cumulative, voting, no par value (a) (c)....				
COMMON STOCK--no par value(a) (c).....	91,300,000	\$ 834,889	91,300,000	\$ 834,889
		-----		-----

- (a) The Company's Articles of Incorporation authorize the following stocks: 100 million shares of Common Stock; 160,000 shares of 6% Preferred Stock; 840,000 shares of 6% Preferred Stock, Series A; 5 million shares of Series Preferred Stock and 5 million shares of Preference Stock.
- (b) In 1996, the Company redeemed \$50 million of the Flexible Auction Series A, and \$50 million of the Flexible Auction Series C preferred stock.
- (c) In the event of any liquidation, dissolution or winding up of the Company, the holders of shares of each series of Preferred Stock and of each series of Series Preferred Stock would be entitled to receive the stated value or the liquidation preference for their shares, plus accrued dividends before any amount shall be paid to the holders of Preference Stock or Common Stock. If the amounts payable with respect to the shares of each series of Preferred Stock or Series Preferred Stock are not paid in full, the holders of such shares will share ratably in any such distribution. After payment in full to the holders of each series of Preferred Stock, Series Preferred Stock and Preference Stock of the liquidating distributions to which they are entitled, the remaining assets and funds of the Company would be divided PRO RATA among the holders of the 6% Preferred Stock and the holders of Common Stock.

11. TRANSACTIONS WITH AFFILIATES

Pacific Interstate Transmission Company, Pacific Interstate Offshore Company and Pacific Offshore Pipeline Company, subsidiaries of the Parent and gas supply affiliates of the Company, sell and transport gas to the Company under tariffs approved by the Federal Energy Regulatory Commission. During 1996, 1995, and 1994, billings for such gas purchases totaled \$186 million, \$141 million, and \$215 million, respectively. The Company has long-term gas purchase and transportation agreements with the affiliates extending through the year 2003 requiring certain minimum payments which allow the affiliates to recover the construction cost of their facilities. The Company is obligated to make minimum annual payments to cover the affiliates' operation and maintenance expenses, demand charges paid to their suppliers, current taxes other than income taxes, and debt service costs, including interest expense and scheduled retirement of debt. These long-term agreements were restructured in conjunction with the Comprehensive Settlement previously discussed (See Note 3).

12. PENSION, POSTRETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS

PENSION PLAN

The Company has a noncontributory defined benefit pension plan covering substantially all of its employees. 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 plan 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.

In conformity with generally accepted accounting principles for a rate regulated enterprise, the Company has recorded regulatory adjustments to reflect, in net income, pension costs calculated under the actuarial method allowed for ratemaking. The cumulative difference between the net periodic pension cost calculated for financial reporting and ratemaking purposes has been included as a deferred charge or credit in the Consolidated Balance Sheet.

Pension expense was as follows:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(THOUSANDS OF DOLLARS)		
Service cost--benefits earned during the period.....	\$ 34,283	\$ 26,038	\$ 33,627
Interest cost on projected benefit obligation.....	92,564	84,392	80,741
Actual return on plan assets.....	(204,312)	(315,420)	(2,631)
Net amortization and deferral.....	99,749	210,594	(94,173)
Net periodic pension cost.....	22,284	5,604	17,564
Special early retirement program.....		18,011	11,790
Regulatory adjustment.....	3,248	4,582	(1,878)
Total pension expense.....	\$ 25,532	\$ 28,197	\$ 27,476

12. PENSION, POSTRETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS (CONTINUED)
A reconciliation of the plan's funded status to the pension liability recognized in the Consolidated Balance Sheet is as follows:

	DECEMBER 31,	
	1996	1995
(THOUSANDS OF DOLLARS)		
Actuarial present value of pension benefit obligations		
Accumulated benefit obligation, including \$1,048,074 and \$956,990 in vested benefits at December 31, 1996 and 1995, respectively.....	\$ 1,082,622	\$ 1,083,052
Effect of future salary increases.....	207,815	270,530
Projected benefit obligation.....	1,290,437	1,353,582
Less: plan assets at fair value, primarily publicly traded common stocks and equity pooled funds.....	(1,653,295)	(1,492,891)
Unrecognized net gain.....	404,220	185,932
Unrecognized prior service cost.....	(37,962)	(40,608)
Unrecognized transition obligation.....	(4,120)	(4,635)
Accrued pension liability included in the Consolidated Balance Sheet.....	\$ (720)	\$ 1,380
Deferred pension charge included in the Consolidated Balance Sheet.....	\$ (3,248)	\$ (1,813)
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 PLANS

In 1993, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106). SFAS 106 requires the accrual of the cost of certain postretirement benefits other than pensions over the active service period of the employee. The Company previously recorded these costs when paid or funded. In accordance with SFAS 106, the Company elected to allow amortization of the unfunded transition obligation of \$256 million over 20 years. The CPUC in late 1992 authorized SFAS 106 amounts to be recovered in rates.

As with pensions, the Company has recorded regulatory adjustments to reflect, in net income, postretirement benefit costs calculated under the actuarial method allowed for ratemaking. The cumulative difference between the net periodic postretirement benefit cost calculated for financial reporting and ratemaking purposes has been included as a deferred charge or credit in the Consolidated Balance Sheet.

The Company's postretirement benefit plans currently provide 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 tax 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.

Separate trusts for each of the plans have been established exclusively for the benefit payments of each plan. Some of the plans' funds are commingled with the pension funds by the trustee for investment purposes but are accounted for separately per plan.

12. PENSION, POSTRETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS (CONTINUED)

The net periodic postretirement benefit expense was as follows:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(THOUSANDS OF DOLLARS)		
Service cost--benefits earned during the period.....	\$ 15,313	\$ 12,363	\$ 13,122
Interest cost on projected benefit obligation.....	30,197	29,089	26,464
Actual return on plan assets.....	(29,865)	(36,172)	(1,487)
Net amortization and deferral.....	23,545	35,006	2,561
Net periodic postretirement benefit cost.....	39,190	40,286	40,660
Regulatory adjustment.....	(778)	(1,378)	(2,887)
Total postretirement benefit expense.....	\$ 38,412	\$ 38,908	\$ 37,773

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

	DECEMBER 31,	
	1996	1995
	(THOUSANDS OF DOLLARS)	
Accumulated postretirement benefit obligation:		
Retirees.....	\$ 191,961	\$ 176,278
Fully eligible active plan participants.....	155,888	228,456
Other active plan participants.....	19,454	21,301
	367,303	426,035
Less: plan assets at fair value, primarily publicly traded common stocks and equity pooled funds.....	(263,818)	(209,990)
Unrecognized net transition obligation.....	(132,281)	(217,266)
Unrecognized net pension service cost.....		15,050
Unrecognized net gain (loss).....	28,796	(15,207)
Net postretirement benefit liability included in the Consolidated Balance Sheet.....	0	\$ (1,378)
Deferred postretirement benefit charge included in the Consolidated Balance Sheet.....	\$ (778)	\$ (1,378)
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 \$9.7 million on the aggregate of the service and interest cost components of net periodic postretirement cost for 1996 and \$77.7 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

12. PENSION, POSTRETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS (CONTINUED)
recovered in rates as paid, and as such, have been reflected as a regulatory asset. At December 31, 1996 and 1995 the liability was \$40 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 \$7 million in 1996 and 1995, and \$8 million in 1994.

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 43. 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 to be 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.

Warren I. Mitchell,
President

Larry J. Dagley,
Senior Vice President and Chief Financial Officer

January 28, 1997

INDEPENDENT AUDITOR'S REPORT

Southern California Gas Company:

We have audited the consolidated financial statements of Southern California Gas Company and subsidiaries (pages 23 to 41) 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 Southern California Gas Company and its 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.

DELOITTE & TOUCHE LLP
Los Angeles, California
January 28, 1997

QUARTERLY FINANCIAL DATA (UNAUDITED)

THREE MONTHS ENDED	1996			
	MARCH 31,	JUNE 30,	SEPT. 30,	DEC. 31,
	(THOUSANDS OF DOLLARS)			
Operating revenues.....	\$ 619,840	\$ 497,100	\$ 575,441	\$ 729,600
Net operating revenue.....	\$ 78,941	\$ 54,092	\$ 73,271	\$ 80,009
Net income.....	\$ 56,986	\$ 32,076	\$ 53,117	\$ 58,932
Net income applicable to common stock.....	\$ 54,179	\$ 30,208	\$ 51,340	\$ 57,156

THREE MONTHS ENDED	1995			
	MARCH 31,	JUNE 30,	SEPT. 30,	DEC. 31,
	(THOUSANDS OF DOLLARS)			
Operating revenues.....	\$ 604,690	\$ 579,559	\$ 505,292	\$ 589,767
Net operating revenue.....	\$ 73,272	\$ 73,880	\$ 71,499	\$ 81,180
Net income.....	\$ 51,049	\$ 53,025	\$ 50,650	\$ 60,109
Net income applicable to common stock.....	\$ 48,121	\$ 50,107	\$ 47,762	\$ 57,230

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 Information Statement for its Annual Meeting of Shareholders scheduled to be held on May 6, 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 Information Statement for its Annual Meeting of Shareholders scheduled to be held on May 6, 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 Information Statement for its Annual Meeting of Shareholders scheduled to be held on May 6, 1997. Such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

CONSOLIDATED FINANCIAL STATEMENTS (SET FORTH IN ITEM 8 OF THIS ANNUAL REPORT ON FORM

1. 10-K):

- 1.01 Report of Deloitte & Touche LLP, Independent Certified Public Accountants.
- 1.02 Statement of Consolidated Income for the years ended December 31, 1996, 1995 and 1994.
- 1.03 Consolidated Balance Sheet at December 31, 1996 and 1995.
- 1.04 Statement of Consolidated Cash Flows for the years ended December 31, 1996, 1995 and 1994.
- 1.05 Statement of Consolidated Shareholders' Equity for the years ended December 31, 1996, 1995, 1994 and 1993.
- 1.06 Notes to Consolidated Financial Statements.

3. ARTICLES OF INCORPORATION AND BY-LAWS:

- 3.01 Restated Articles of Incorporation of Southern California Gas Company
- 3.02 Bylaws of Southern California Gas Company. (Note 28; 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 Preferred Stock Certificates of Southern California Gas Company (Note 13; Exhibit 4.01).
- 4.02 First Mortgage Indenture of Southern California Gas Company to American Trust Company dated as of October 1, 1940 (Note 1; Exhibit B-4).
- 4.03 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of July 1, 1947 (Note 2; Exhibit B-5).
- 4.04 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of August 1, 1955 (Note 3; Exhibit 4.07).
- 4.05 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of June 1, 1956 (Note 4; Exhibit 2.08).
- 4.06 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of August 1, 1972 (Note 7; Exhibit 2.19).
- 4.07 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of May 1, 1976 (Note 6; Exhibit 2.20).
- 4.08 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of September 15, 1981 (Note 12; Exhibit 4.25).
- 4.09 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 16; Exhibit 4.29).
- 4.10 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 18; Exhibit 4.11).

4.11 Supplemental Indenture of Southern California Gas Company to First Trust of California, National Association, successor to Bankers Trust Company of California, N.A. dated as of August 15, 1992 (Note 24; Exhibit 4.37).

4.12 Specimen 7 3/4% Series Preferred Stock Certificate (Note 25; Exhibit 4.15).

10. MATERIAL CONTRACTS

- 10.01 Restatement and Amendment of Pacific Enterprises 1979 Stock Option Plan (Note 10; Exhibit 1.1).
- 10.02 Pacific Enterprises Supplemental Medical Reimbursement Plan for Senior Officers (Note 11; Exhibit 10.24).
- 10.03 Pacific Enterprises Financial Services Program for Senior Officers (Note 11; Exhibit 10.25).
- 10.04 Southern California Gas Company Retirement Savings Plan, as amended and restated as of August 30, 1988 (Note 15; Exhibit 28.02).
- 10.05 Southern California Gas Company Statement of Life Insurance, Disability Benefit and Pension Plans, as amended and restated as of January 1, 1985 (Note 16; Exhibit 10.27).
- 10.06 Southern California Gas Company Pension Restoration Plan For Certain Management Employees (Note 11; Exhibit 10.29).
- 10.07 Pacific Enterprises Executive Incentive Plan (Note 18; Exhibit 10.13)
- 10.08 Pacific Enterprises Deferred Compensation Plan for Key Management Employees (Note 15; Exhibit 10.41).
- 10.09 Pacific Enterprises Stock Incentive Plan (Note 19; Exhibit 4.01).
- 10.10 Amended and Restated Pacific Enterprises Employee Stock Option Plan (as of March 4, 1997).
- 10.11 Master Affiliate Service Agreement dated as of September 1, 1996 between Southern California Gas Company and Pacific Enterprises Energy Services, as amended.

21. SUBSIDIARIES OF THE REGISTRANT

- 21.01 List of subsidiaries of Southern California Gas Company.

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 Southern California Gas Company (contained on the signature pages of this Annual Report on Form 10-K).

27. FINANCIAL DATA SCHEDULE

- 27.01 Financial Data Schedule.

(b) REPORTS ON FORM 8-K:

No reports on Form 8-K were filed during the last quarter of 1996.

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. 2-45361 filed by Southern California Gas Company on August 16, 1972.
 - 6 Registration Statement No. 2-56034 filed by Southern California Gas Company on April 14, 1976.
 - 7 Registration Statement No. 2-59832 filed by Southern California Gas Company on September 6, 1977.
 - 8 Registration Statement No. 2-42239 filed by Pacific Lighting Gas Supply Company (under its former name of Pacific Lighting Service Company) on October 29, 1971.
 - 9 Registration Statement No. 2-43834 filed by Pacific Lighting Corporation on April 17, 1972.
 - 10 Registration Statement No. 2-66833 filed by Pacific Lighting Corporation on March 5, 1980.
 - 11 Annual Report on Form 10-K for the year ended December 31, 1980, filed by Pacific Lighting Corporation.
 - 12 Annual Report on Form 10-K for the year ended December 31, 1981, filed by Pacific Lighting Corporation.
 - 13 Annual Report on Form 10-K for the year ended December 31, 1980 filed by Southern California Gas Company.
 - 14 Quarterly Report on Form 10-Q for the quarter ended September 30, 1983, filed by Southern California Gas Company.
 - 15 Registration Statement No. 33-6357 filed by Pacific Enterprises on December 30, 1988.
 - 16 Annual Report on Form 10-K for the year ended December 31, 1984, filed by Southern California Gas Company.
 - 17 Current Report on Form 8-K for the month of March 1986, filed by Southern California Gas Company.
 - 18 Annual Report on Form 10-K for the year ended December 31, 1987 filed by Pacific Lighting Corporation.
 - 19 Registration Statement No. 33-21908 filed by Pacific Enterprises on May 17, 1988.
 - 20 Annual Report on Form 10-K for the year ended December 31, 1988, filed by Southern California Gas Company.
 - 21 Annual Report on Form 10-K for the year ended December 31, 1989, filed by Southern California Gas Company.
 - 22 Annual Report on Form 10-K for the year ended December 31, 1990, filed by Southern California Gas Company.
 - 23 Annual Report on Form 10-K for the year ended December 31, 1991, filed by Southern California Gas Company.
 - 24 Registration Statement No. 33-50826 filed by Southern California Gas Company on August 13, 1992.
 - 25 Annual Report on Form 10-K for the year ended December 31, 1992, filed by Southern California Gas Company.
 - 26 Annual Report on Form 10-K for the year ended December 31, 1993, filed by Southern California Gas Company.
 - 27 Registration Statement No. 33-54055 filed by Pacific Enterprises on June 9, 1994.
 - 28 Annual Report on Form 10-K for the year ended December 31, 1995, filed by Southern California Gas Company.

SIGNATURES

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

SOUTHERN CALIFORNIA GAS COMPANY

By: /s/ WARREN I. MITCHELL

 Name: Warren I. Mitchell
 Title: President
 Dated: March 26, 1997

Each person whose signature appears below hereby authorizes Warren I. Mitchell, Larry J. Dagley, Ralph Todaro, 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
----- /s/ WARREN I. MITCHELL ----- (Warren I. Mitchell)	President (Principal Executive Officer)	March 26, 1997
----- /s/ LARRY J. DAGLEY ----- (Larry J. Dagley)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 26, 1997
----- /s/ RALPH TODARO ----- (Ralph Todaro)	Vice President and Controller (Principal Accounting Officer)	March 26, 1997
----- /s/ HYLA H. BERTEA ----- (Hyla H. Berteia)	Director	March 26, 1997
----- /s/ HERBERT L. CARTER ----- (Herbert L. Carter)	Director	March 26, 1997
----- /s/ RICHARD D. FARMAN ----- (Richard D. Farman)	Director	March 26, 1997
----- /s/ WILFORD D. GODBOLD, JR. ----- (Wilford D. Godbold, Jr.)	Director	March 26, 1997
----- /s/ IGNACIO E. LOZANO, JR. ----- (Ignacio E. Lozano, Jr.)	Director	March 26, 1997
----- /s/ PAUL A. MILLER ----- (Paul A. Miller)	Director	March 26, 1997
----- /s/ RICHARD J. STEGEMEIER ----- (Richard J. Stegemeier)	Director	March 26, 1997
----- /s/ DIANA L. WALKER ----- (Diana L. Walker)	Director	March 26, 1997
----- /s/ WILLIS B. WOOD, JR. ----- (Willis B. Wood, Jr.)	Director	March 26, 1997

RESTATED
ARTICLES OF INCORPORATION
OF
SOUTHERN CALIFORNIA GAS COMPANY

KNOW ALL MEN BY THESE PRESENTS:

That we, the undersigned, all of whom are citizens and residents of the State of California, have this day voluntarily associated ourselves together for the purpose of forming a corporation under the laws of the State of California.

AND WE HEREBY CERTIFY:

First: That the name of said corporation shall be SOUTHERN CALIFORNIA GAS COMPANY.

Second: That the purposes for which it is formed are:

To manufacture, sell and supply light, and to carry on the business of a gas works company, in all its branches; to deal with, to manufacture, to render salable all products, by-products and residual products obtained in the manufacture of gas; to construct, manufacture, and maintain works for holding, receiving, purifying and distributing gas, and all other building and works, meters, pipes, fittings, machinery, apparatus and appliances convenient or necessary for the business of the company; to manufacture, buy, sell, rent, deal in stoves, engines and other apparatus and conveniences which may seem calculated directly or indirectly to promote the consumption of gas.

To manufacture, produce, generate, or otherwise obtain electric light, power and heat, by water-power, by steam-power or by any other method and from any other substances; to condemn and obtain property, real or personal, rights of way, easements and franchises, for the purpose of producing, marketing, selling, storing, furnishing, conducting and transporting water, gas, electric current, light, power and heat to any and all places.

To sell, furnish and deal in illuminating and fuel gas, electric light, heat and power, and to dispose of and sell the same to cities, towns, villages, private corporations and individuals; to erect, construct, and operate such buildings, structures, machinery, plants, apparatus and devices as may be deemed necessary or convenient for the purposes of this corporation; to buy, sell, and deal in such goods, wares and merchandise and materials as may be deemed necessary or convenient for carrying on said business; to locate, claim, divert, appropriate and otherwise acquire water and water-rights under the laws of the State of California for all purposes; to construct, acquire and maintain pole lines, conduits, distributing systems, operating plants, ditches, dams, tunnels, levees, via-ducts, bridges, embankments, excavations and pipelines under, across and over any lands, water courses, lakes, streams or waterways; and to sell, lease, grant or otherwise dispose of so much of the water or water-rights thus secured, controlled or appropriated, to persons, municipal or private corporations, by contracts or otherwise; to transmit gas, electric light, power and heat to purchasers thereof, and wherever the same may be situated by means of poles and wires, conduits and subways or otherwise, over, under or through any lands or waters or both; to acquire by deed, gift, will, grant or otherwise, lands, tenements, hereditaments, leasehold estates, water, water-rights, bonds, notes, bills, claims, evidences of indebtedness, stock of incorporated companies, franchises, privileges, patent rights and licenses, property and every estate, right, interest and appurtenance in, to or concerning real and personal property of every name and nature, legal and equitable; and to have and to hold, use and enjoy, manage, control, grant, assign, transfer and convey and incur by mortgage or deed of trust and otherwise dispose of the same and every part thereof or interest therein; to engage in the business of supplying light, heat and power by electric appliances or otherwise.

To erect, buy, sell, operate, lease and let, water, electric and gas plants and their distributing systems, and generating stations for the manufacture, generation, accumulation, storage, transmission and distribution of gas, both illuminating and fuel, and electric current and any and all machinery used therein or in connection therewith.

To erect, operate, lease and let, refrigerating plants and to carry on the business of manufacturing and selling ice, furnishing cold storage and all other manner of kindred business incidental thereto or in anywise connected therewith.

To erect, operate, and maintain plants for the generation and distribution of steam-heat, together with the

transaction of all legitimate business incidental thereto and in anywise connected therewith; and to erect generating stations for the manufacture, generation, accumulation, storage, transmission and distribution of cold air, ice, or other refrigerating products, and steam heat, and all similar products for the heating and warming and the operation of mechanical appliances in buildings.

To take, acquire, buy, hold, own, maintain, work, develop, sell, convey, lease, mortgage, pledge or otherwise deal in and dispose of real estate, real property or any interest or rights therein, and personal property.

To acquire and carry on all or any part of the business or property of any corporation, copartnership or individuals engaged in a business similar to that authorized to be conducted by the company, and to undertake in conjunction therewith any liabilities of any person, firm, association or corporation possessed of property suitable for any of the purposes of this company, or for carrying on any business which this company is authorized to conduct, and as the consideration of the same to pay cash or to issue shares, stocks or obligations of this company, at such valuation as the directors of the company in their discretion, may determine.

To purchase, subscribe for, or otherwise acquire, and to hold the shares, stocks or obligations of any corporation organized under the laws of this state or any other state, or of any territory or colony of the United States, or of any foreign country, and to sell, or exchange the same, and to exercise any or all of the powers of holders of shares, stocks or securities thereof, including the right to vote in respect thereof, among the stockholders of this company; and to exchange or sell or otherwise dispose of the shares of stock of this corporation for the shares of stock of other corporations or for any property of any character whatsoever.

To guarantee the payment of the bonds, notes or other obligations of whatever character of any corporation or corporations; to guarantee the payment of dividends or interest on any shares, stocks, debentures or other securities issued by, or any other contract or obligation of, any corporation whenever proper or necessary for the business of the corporation in the judgment of its directors; and provided the required authority be first obtained from the board of directors for that purpose.

To borrow or raise moneys for the purpose of its incorporation, to issue its bonds, notes or other obligations for moneys so borrowed, or in payment of or in exchange for, any real or personal property or rights or franchises acquired for other value received by the

corporation and to secure such obligations by pledge, or mortgage, under deed of trust or otherwise, of or upon the whole or any part of the property at any time held by the corporation, and to sell or pledge such bonds, or discount such notes or other obligations, for its proper corporate purposes.

The corporation may use and apply its surplus earnings or accumulated profits authorized by law to be reserved, to the purchase or acquisition of property and to the purchase or acquisition of its own capital stock from time to time, to such extent and in such manner and upon such terms as its board of directors shall determine.

To do any or all things in this certificate set forth as objects, purposes, powers or otherwise, to the same extent and as fully as natural persons might or could do, and in any part of the world as principals, agents, contractors, trustees or otherwise.

It is the intention that the objects and powers specified and clauses contained in this paragraph shall, except where otherwise expressed in said paragraph, be nowise limited or restricted by reference to or inference from the terms of any other clause of this or any other paragraph in this charter, but that the objects and powers specified in each of the clauses of this paragraph shall be regarded as independent objects and powers.

Third: That the place where the principal business of said corporation is to be transacted is Los Angeles, County of Los Angeles, State of California.

Fourth: That this corporation shall have perpetual existence.

Fifth: That the number of directors of this corporation shall be not less than five nor more than seven or such other number or range of authorized numbers as may be fixed from time to time by amendment of these Articles of Incorporation or by a bylaw or amendment thereof duly adopted by the shareholders.

Sixth: 1. AUTHORIZED NUMBER, CLASSES AND SERIES OF SHARES. That the total number of shares of capital stock of this corporation is One Hundred Eleven Million (111,000,000). Of said total capital stock, One Hundred Sixty Thousand (160,000) shares are Preferred Stock of a par value of Twenty-five Dollars (\$25.00) each; Eight Hundred Forty Thousand (840,000) shares are Preferred Stock, Series A of a par value of Twenty-five Dollars (25.00) each; Five Million (5,000,000) shares, are Series Preferred Stock without par value; Five Million (5,000,000) shares are

Preference Stock without par value; and One Hundred Million (100,000,000) shares are Common Stock, without par value.

Shares of Series Preferred Stock and Preference Stock may be issued from time to time in one or more 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 rights, preferences, privileges, and restrictions granted to or upon and the number of shares and distinctive designations of each such series while wholly unissued and to increase or decrease the number of shares of any such series subsequent to the issue of shares thereof, but not below the number of such shares then outstanding.

2. DIVIDEND RIGHTS. The holders of Preferred Stock, of Preferred Stock, Series A and of each series of Series Preferred Stock shall be entitled, without preference as between such classes or series of stock or the holders thereof, to receive, out of any funds of this corporation legally available therefor, dividends at the rate established therefor, payable as may be authorized by the board of directors, before any dividend shall be declared and set apart for payment or paid on the Preference Stock or the Common Stock. In the case of Preferred Stock and Preferred Stock, Series A, said dividends shall be at the annual rate of six per centum of the \$25 par value thereof. In the case of each series of Series Preferred Stock said dividends shall be at the rate therefor established by the board of directors (which rate may include a fixed, variable or adjustable rate) in the resolution authorizing shares of such series. The dividends upon Preferred Stock, Preferred Stock, Series A, and each series of Series Preferred Stock shall be cumulative, so that if in or for any period dividends in the amount established therefor shall not be declared and set apart for payment or paid on Preferred Stock, Preferred Stock, Series A and each series of Series Preferred Stock, or any part thereof, the deficiency shall be a charge upon the net earnings of this corporation, and be payable subsequently, before any dividend shall be declared and set apart for payment or paid upon Preference Stock or the Common Stock. The holders of Preferred Stock, of Preferred Stock, Series A and of each series of Series Preferred Stock shall not be entitled to any further dividend beyond said cumulative dividends.

The holders of each series of Preference Stock shall be entitled, without preference as between such series of stock or the holders thereof, to receive, out of any funds of this corporation legally available therefor, dividends at the rate established therefor by the board of directors (which rate may include a fixed, variable or adjustable rate) in the resolution authorizing shares of such series, payable as may be authorized by the directors,

before any dividend shall be declared and set apart for payment or paid on Common Stock. The dividends upon each series of Preference Stock shall be cumulative, so that if in or for any period dividends in the amount established therefor shall not be declared and set apart for payment or paid on each series of Preference Stock, or any part thereof, the deficiency shall be a charge upon the net earnings of this corporation, and be payable subsequently, before any dividend shall be declared and set apart for payment or paid upon Common Stock. The holders of each series of Preference Stock shall not be entitled to any further dividend or share of profits beyond said cumulative dividends.

Whenever all cumulative dividends on Preferred Stock, Preferred Stock, Series A and each series of Series Preferred Stock and of Preference Stock have been declared and set apart for payment or paid, the board of directors may declare dividends on Common Stock payable out of the remaining funds of this corporation legally available for the declaration of dividends.

3. LIQUIDATION RIGHTS. In case of the liquidation or the dissolution of this corporation, the holders of Preferred Stock, of Preferred Stock, Series A and of each series of Series Preferred Stock shall be entitled, without preference as between such classes or series of stock or the holders thereof, to be paid in full both the liquidation preference established for their shares and the accrued dividend charge before any amount shall be paid to the holders of the Preference Stock or Common Stock. In the case of the Preferred Stock and the Preferred Stock, Series A said liquidation preference shall be the par value thereof. In the case of each series of Series Preferred Stock said liquidation preference shall be the amount established therefor by the board of directors in the resolution authorizing shares of such series. No further distribution shall be made to the holders of Preferred Stock, Series A or of any series of Series Preferred Stock.

After payment in full to the holders of Preferred Stock, of Preferred Stock, Series A and of each series of Series Preferred Stock of both the liquidation preference established for their shares and the accrued dividend charge, the holders of each series of Preference Stock shall be entitled, without preference as between such series of stock or the holders thereof, to be paid in full both the liquidation preference established for their shares by the board of directors in the resolution authorizing the issuance of shares of such series and the accrued dividend charge before any amount shall be paid to the holders of Common Stock. No further distribution shall be made to the holders of any series of Preference Stock.

After payment in full to the holders of Preferred Stock, of Preferred Stock, Series A, of each series of Series Preferred Stock and of each series of Preference Stock of both the liquidation preference established for their shares and the accrued dividend charge, the remaining assets and funds of this corporation shall be divided pro rata among the holders of Preferred Stock and the holders of Common Stock.

4. VOTING RIGHTS. The holders of Preferred Stock, of Preferred Stock, Series A, of each series of Series Preferred Stock, of each series of Preference Stock and of Common Stock shall be entitled to one vote for each share and shall vote together in the election of directors and on all matters presented to shareholders except those matters for which a vote by class or series is required by applicable law or, in the case of any series of Series Preferred Stock or Preference Stock, by the resolution of the board of directors authorizing shares of such series.

5. REDEMPTION. The Preferred Stock and the Preferred Stock, Series A shall not be redeemable by this corporation. Each series of Series Preferred Stock and each series of Preference Stock shall be redeemable, if at all, upon such terms and conditions established by the board of directors in the resolution authorizing shares of such series.

6. PRE-EMPTIVE RIGHTS. Each holder of Common Stock of this corporation shall be entitled to the full pre-emptive right to purchase and/or subscribe for, at such price as the board of directors may from time to time fix, the number of any shares of Common Stock of this corporation, or of securities convertible into or evidencing the right to purchase shares of Common Stock, now or hereafter authorized and issued at any time by this corporation which bears the same ratio to the number of shares of Common Stock or securities then proposed to be issued as the number of shares of Common Stock held by such holder shall bear to the total number of shares of Common Stock subscribed or outstanding immediately prior to such additional issue. No holder of any other shares of this corporation shall have any pre-emptive right to purchase and/or subscribe for any shares of any class of stock of this corporation now or hereafter authorized and which may be offered for subscription or sale by this corporation.

7. GENERAL. All stock issued by this corporation shall be fully paid up and nonassessable. No share of stock shall be issued until the same is fully paid.

Seventh: That the amount of capital stock which has been actually subscribed is Twenty-five Hundred Dollars (\$2,500), and the following are the names of the persons by

whom the same has been subscribed and the amounts subscribed by each of them,
to-wit:

Names of Subscribers	Number of Shares of Common Stock	Amount
A. N. Kemp	5	\$500.00
A. C. Johnston	5	\$500.00
E. R. Davis	5	\$500.00
Henry P. Baumgaertner	5	\$500.00
Charles Forman	5	\$500.00

Eighth: 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 Corporation 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 Eighth shall adversely affect any protection, right 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.

Ninth: 1. NUMBER AND DESIGNATION. Of the authorized shares of Series Preferred Stock, without par value, of the corporation 3,000,000 shares are hereby constituted as a series thereof and designated as "7 3/4% Series Preferred Stock" (hereinafter referred to as "7 3/4% Series Preferred Stock").

2. STATED VALUE. Shares of the 7 3/4% Series Preferred Stock shall be without par value but with a stated value of \$25 per share.

3. DIVIDENDS.

3.1 The holders of shares of the 7 3/4% Series Preferred Stock shall be entitled to receive cash dividends, when and as declared by the board of directors out of any funds legally available therefor, at the annual dividend rate of 7 3/4% per share based on the stated value thereof.

3.2 Dividends on the 7 3/4% Series Preferred Stock shall be cumulative, shall accrue on each share from the date of original issuance thereof and shall be payable when and as declared by the board of directors out of funds legally available therefor, on January 15, April 15, July 15 and October 15 of each year, commencing April 15, 1993, to holders of record thereof on such record date not exceeding 60 days preceding the payment date therefor as may be determined by the board of directors in advance of such record date. Dividends for which payment is in arrears may be declared and paid at any time, to holders of record on such record date not exceeding 60 days preceding the payment date therefor as may be fixed by the board of directors in advance of such record date. No interest or sum of money in lieu of interest, shall be payable in respect of any dividends the payment of which may be in arrears.

3.3 The amount of dividends per share payable for the period from the date of original issuance of the 7 3/4% Series Preferred Stock to and including April 14, 1993 (such period and each succeeding quarterly period commencing on April 15, July 15, October 15 and January 15 and ending on and including the day next preceding the first day of the next succeeding quarterly period is hereinafter referred to as a "Dividend Period"), and for any period less than a Dividend Period shall be calculated on the basis of a 365-day year and the actual number of days elapsed in the period for which payable. The amount of dividends per share payable for each Dividend Period commencing after April 14, 1993 shall be calculated by dividing the annual dividend rate by four.

3.4 The corporation shall not declare and set apart for payment or pay any dividends on its Preferred Stock, Preferred Stock, Series A, any other series of its

Series Preferred Stock or any other class or series of stock of the corporation ranking on a parity with the 7 3/4% Series Preferred Stock as to the payment of dividends and the payment of liquidation preferences unless there shall likewise be or have been declared and set apart for payment or paid on all shares of 7 3/4% Series Preferred Stock at the time outstanding like dividends for all Dividend Periods ending on or before the date of such action, ratably in proportion to the respective dividend rates fixed for such stock and the 7 3/4% Series Preferred Stock.

3.5 The corporation shall not (i) declare and set apart for payment or pay any dividends or make any other distribution on its Preference Stock or Common Stock or any other class or series of stock of the corporation ranking junior to the 7 3/4% Series Preferred Stock as to the payment of dividends or liquidation preferences (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of its Preference Stock or Common Stock or any other class or series of stock of the corporation ranking junior to the 7 3/4% Series Preferred Stock as to the payment of dividends and liquidation preferences) or (ii) make any payment on account of the purchase, redemption or other retirement of the 7 3/4% Series Preferred Stock, its Preferred Stock, Series A, any other series of its Series Preferred Stock, its Preference Stock or its Common Stock or any other class or series of stock of the corporation ranking on a parity with or junior to the 7 3/4% Series Preferred Stock as to the payment of dividends or liquidation preferences, unless there shall be or have been declared and set apart for payment or paid on all shares of 7 3/4% Series Preferred Stock, dividends at the rate set forth in Section 3.1 for all Dividend Periods ending on or before the date of such action.

4. LIQUIDATION PREFERENCE.

4.1 In the case of the liquidation or dissolution of the corporation, before any amount shall be paid on the corporation's Preference Stock or Common Stock or any other class or series of stock of the corporation ranking junior to the 7 3/4% Series Preferred Stock as to liquidation preferences, the holders of shares of 7 3/4% Series Preferred Stock shall be entitled to be paid the \$25 per share stated value of the 7 3/4% Series Preferred Stock as a liquidation preference and the accrued and unpaid dividend charge thereon. After such payment the holders of shares of 7 3/4% Series Preferred Stock shall not be entitled to any further payment.

4.2 If, in case of any liquidation or dissolution of the corporation, the assets of the corporation shall be insufficient to make payment in full of amounts payable on

the 7 3/4% Series Preferred Stock, the corporation's Preferred Stock, its Preferred Stock, Series A, any other series of its Series Preferred Stock and any other class or series of stock of the corporation ranking on a parity with the 7 3/4% Series Preferred Stock as to the payment of liquidation preferences, then such assets shall be distributed among the holders of shares of all such stock ratably in proportion to the respective amounts which would be payable if all amounts payable thereon were paid in full.

4.3 For the purpose of this Section, a consolidation or merger of the corporation with or into one or more corporations shall not be deemed to be a liquidation or dissolution.

5. REDEMPTION.

5.1 OPTIONAL REDEMPTION. The 7 3/4% Series Preferred Stock shall not be redeemable except at the option of the corporation. Subject to Section 3.5, the 7 3/4% Series Preferred Stock shall be redeemable at the option of the corporation, at any time or from time to time on or after February 1, 1998, as a whole or in part, at a redemption price of \$25 per share, together with accrued and unpaid dividends on each share redeemed to the date fixed for redemption.

5.3 REDEMPTION PROCEDURES.

(a) If less than all the outstanding shares of 7 3/4% Series Preferred Stock are to be redeemed, shares to be redeemed shall be selected by the corporation from outstanding shares of 7 3/4% Series Preferred Stock not previously called for redemption by lot or pro rata (as nearly as may be practicable) or by any other method determined by the board of directors of the corporation in its sole discretion to be equitable.

(b) Notice of each redemption of shares of 7 3/4% Series Preferred Stock shall be mailed by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, to each holder of record of the shares to be redeemed, at such holder's address as the same appears on the stock register of the corporation; provided that no failure to mail such notice to particular holders of the shares to be redeemed or any defect therein or in the mailing thereof shall affect the validity of the proceedings for redemption of any shares to be redeemed. Each such notice shall state: (i) the date fixed for redemption; (ii) the number of shares to be redeemed and if less than all the shares are to be redeemed, the number of the shares to be redeemed from such holder; (iii) the applicable redemption price and the manner in which it is to be paid; (iv) the place or places where certificates for the

shares to be redeemed are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the date fixed for redemption. Notice having been given as aforesaid, from and after the redemption date (unless default shall be made by the corporation in payment of the redemption price), dividends on the shares of 7 3/4% Series Preferred Stock so called for redemption shall cease to accrue, and said shares shall no longer be deemed to be outstanding, and all rights of the holders thereof as shareholders of the corporation shall cease.

(c) Upon surrender in accordance with the notice of redemption of the certificates for any shares of 7 3/4% Series Preferred Stock called for redemption (properly endorsed or assigned for transfer, if the board of directors of the corporation shall so require and the notice shall so state), such shares shall be redeemed by the corporation at the redemption price.

(d) The corporation's obligation to pay the redemption price of shares of 7 3/4% Series Preferred Stock called for redemption shall be deemed fulfilled if, on or before the redemption date, the corporation shall deposit in trust with a bank or trust company organized under the laws of the United States of America or any state thereof and having a capital, undivided profits and surplus aggregating at least \$50,000,000, funds sufficient for such payment together with irrevocable instructions that such funds be applied to the redemption of such shares. Any interest accrued on such funds shall be paid to the corporation from time to time. Any funds so deposited and unclaimed at the end of six years from such redemption date shall be repaid or released to the corporation, after which the holder or holders of such shares shall look only to the corporation for payment of the redemption price.

6. SHARES TO BE RETIRED. All shares of 7 3/4% Series Preferred Stock redeemed or purchased by the corporation shall be retired and cancelled and shall be restored to the status of authorized but unissued shares of Series Preferred Stock without designation as to series.

7. CONVERSION OR EXCHANGE. The holders of shares of 7 3/4% Series Preferred Stock shall not have any right to convert such shares into or exchange such shares for shares of any other class or series of stock or any other security of the corporation.

8. VOTING. Holders of shares of 7 3/4% Series Preferred Stock shall be entitled to one vote for each share and shall vote together with the corporation's other shareholders in the election of directors and on all other

matters except those matters for which a series or class vote is required by applicable law.

PACIFIC ENTERPRISES

 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 affiliate 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 (v) a person or group as used in Rule 13d-3(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, attend, 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.

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.

MASTER AFFILIATE SERVICE AGREEMENT

THIS MASTER AFFILIATE SERVICE AGREEMENT (the "Agreement") is made and entered into effective as of September 1, 1996 (the "Effective Date"), between PACIFIC ENTERPRISES ENERGY SERVICES on its own behalf and as attorney in fact for certain non-regulated subsidiaries of Pacific Enterprises identified on Appendix "A" of this Agreement ("Pacific") and SOUTHERN CALIFORNIA GAS COMPANY ("SoCalGas"). Pacific and SoCalGas are each referred to in this Agreement individually as a "Party," and collectively as the "Parties." The Parties hereby agree as follows:

RECITALS

WHEREAS, Pacific desires to obtain the benefit of certain resources of SoCalGas (other than tariffed utility services, which shall be provided only on the basis of applicable tariffs) to support marketing of new products and services to third parties by Pacific that are specifically set forth at Appendix "B" to this Agreement (the "Services"); and

WHEREAS, SoCalGas is willing to provide the Services to Pacific consistent with the requirements of the California Public Utilities Commission ("CPUC") and the Pacific Enterprises Companies Policy Memorandum on Affiliate Transactions and Activities Allocation of Business Unit and Policy Group Costs, a copy of which is attached as Appendix "C" to this Agreement, as revised or superseded from time to time (collectively, the "Policy").

NOW THEREFORE, the Parties agree as follows:

AGREEMENT

ARTICLE I.
SCOPE OF SERVICES

1.1 GENERAL. Pacific intends to contract with various third parties ("Customers") to provide goods and services to them during the term of this Agreement. Pacific hereby retains SoCalGas to perform the Services as an independent contractor to Pacific. The scope of Services described in Appendix "B" to this Agreement may be amended and modified from time to time pursuant to Section 11.4 of this Agreement.

1.2 BRAND NAME. Subject to SoCalGas' prior approval in accordance with Article IX of this Agreement, Pacific may use the SoCalGas brand name and logo for marketing and labeling Pacific products and services. Pacific shall not be required to pay SoCalGas for the use of the SoCalGas name or logo. Pacific may refer to itself publicly as

"In affiliation with The Gas Company". SoCalGas shall approve all advertising copy for conformance with SoCalGas standards.

1.3 BILLING SERVICES Pacific may, upon SoCalGas' approval, identify certain charges to SoCalGas customers as a separate line item on SoCalGas customer bills. Any partial payments received from SoCalGas customers shall be applied to the SoCalGas portion of the bill first. Pacific may, upon SoCalGas' approval, use the envelope space to market products and services to SoCalGas customers. Inserts required by the CPUC or by legal mandates shall take priority over Pacific products and services. Pacific shall be solely responsible for collection of amounts due it; SoCalGas is not required to collect past due amounts for Pacific.

1.4 CUSTOMER ORDERS. Upon receipt of a Customer Order (which may be transmitted and authenticated electronically via facsimile machine, E-mail or other mutually acceptable method) and unless promptly rejected by SoCalGas or as may be otherwise agreed, SoCalGas shall coordinate specific dates and times of delivery of the Services with Pacific's designated representatives prior to any scheduled visit to Customer locations. Except as provided at Section 2.2 of this Agreement or as may otherwise mutually agreed upon, SoCalGas shall supply all personnel, supplies and equipment required to perform the Services consistent with each Customer Order. Each Customer Order shall specify which Services SoCalGas shall provide pursuant to such Customer Order, and shall include any special conditions or provisions applying to the work (including, but not limited to, any additional contract provisions required by Pacific's agreement with Pacific's Customer).

1.5 OTHER AGREEMENTS. This Agreement sets forth the general terms and conditions pursuant to which the Services shall be provided by SoCalGas to Pacific. Consistent with the terms and conditions of this Agreement, the Parties may develop other terms and conditions for Services. To the extent that other agreements are entered into with respect to one or more Services, this Agreement shall be construed together with such other agreements as a single agreement; provided, however, that any term or condition of other agreements which conflict with this Agreement shall control with respect to the Services provided pursuant to such other agreement.

1.6 DEFAULT AGREEMENT. If SoCalGas provides goods or services to Pacific other than the Services without a written agreement, the terms and conditions of this Agreement shall apply to such Services.

ARTICLE II.
TERM AND TERMINATION

2.1 GENERAL. The term of this Agreement shall commence as of the Effective Date and shall continue until either Party gives the other Party thirty (30) days' prior written notice of termination. Termination of this Agreement shall have no effect upon any other agreement between the Parties or with any third party.

2.2 PRIORITY OF UTILITY OBLIGATIONS. The Parties recognize that, as a public utility regulated by the CPUC, SoCalGas has certain public service obligations, the performance of which may interfere with SoCalGas' performance of its obligations under this Agreement. In such event, SoCalGas may interrupt such Services as may, in its sole judgment, be reasonable or necessary and shall notify Pacific of any extended interruption as soon as reasonably practicable. Pacific may thereupon, and without incurring any liability to SoCalGas thereby, elect to terminate any Customer Order or other work under this Agreement which in its reasonable judgment is or will be materially adversely affected by such extended interruption, and recontract such work or Customer Order to a third party in its sole discretion. Work or Customer Orders not so recontracted shall be completed by SoCalGas as soon as practicable under the circumstances. Except as specifically provided in this Section, SoCalGas shall have no duties or liability under this Agreement for interference or interruptions caused by its public service obligations.

ARTICLE III.
COMPENSATION

3.1 GENERAL. Pacific shall compensate SoCalGas for all Services rendered pursuant to this Agreement in accordance with the principles expressed in the Policy, as revised or superseded from time to time. SoCalGas shall submit invoices to Pacific monthly in sufficient detail to identify the Customer Order authorizing such Services and, with respect to such Services, the specific charges, including (but not limited to) labor, material, location and description of work done, and any reimbursable costs and expenses applicable to such Services. Pacific shall pay each SoCalGas invoice within thirty (30) days of its receipt, after which interest shall accrue. Pacific shall be responsible for payment of any sales or use taxes applicable to the Services.

3.2 SALES AND MARKETING. Except as may be specifically agreed by SoCalGas and Pacific, SoCalGas employees will not be providing leads, closing sales or actively promoting Pacific products and services. Any such arrangements shall be conditioned upon implementation of measures to assure that no confidential SoCalGas customer information will be used thereby for the benefit of Pacific without documented customer consent, that SoCalGas utility workload is not adversely affected, and that SoCalGas is compensated in accordance with the principles expressed in the Policy.

3.3 EMPLOYEE RELOCATION. Pacific shall compensate SoCalGas for management employees employed by Pacific that were SoCalGas employees (within 30 days of their employment by Pacific) by paying an amount equal to twenty five percent (25%) of each such employee's last year's base salary as an employee of SoCalGas.

3.4 PROMOTIONAL MATERIALS. Provided that such work is minimal and incidental to performance of their utility duties and SoCalGas approves the program, SoCalGas account representatives and field personnel may distribute Pacific promotional materials at no cost; provided that Pacific will be charged for training time and similar activities requested by Pacific.

3.5 PROCESS. Consistent with the Policy (as defined in the recitals of this Agreement), the Parties shall develop and periodically review the pricing methodology applicable to the Services (including providing for wage increases and other cost adjustments and the applicable rate of interest for late payments); and shall periodically confirm that the transfer pricing methodology accurately reflects SoCalGas' fully assigned cost of providing the Services. Any significant deviations shall be trued-up to SoCalGas actual recorded costs or otherwise corrected to the mutual satisfaction of the Parties. The development and review shall be completed as soon as reasonably possible, but in any event by December 31, 1996. Further reviews shall be conducted at least annually thereafter.

ARTICLE IV.
CUSTOMER INFORMATION

4.1 CUSTOMER-OWNED. Information owned by individual customers and provided to SoCalGas, such as customer name, address, and phone number, shall not be made available to third parties, including Pacific, without documented customer consent, except to the extent SoCalGas is legally required or permitted to do so.

4.2 PRIVACY EXPECTATION. Information owned by SoCalGas in which the customer has a reasonable expectation of privacy, such as customer credit history, recorded energy consumption data, energy equipment data, and customer service and purchase history, shall be provided to Pacific only with documented customer consent, except to the extent SoCalGas is legally required or permitted to do so.

4.3 CUSTOMER CONSENT. The information described in Sections 4.1 and 4.2 may be referred to in this Agreement as "Customer Information. Pacific shall have the right to seek documented consent from customers for SoCalGas to release Customer Information to Pacific. Pacific shall maintain the confidentiality of all Customer Information consistent with the practice of SoCalGas.

4.4 BILLING SERVICES. Billing services provided by SoCalGas to Pacific shall protect against unauthorized use of Customer Information. Target marketing using SoCalGas mailing services shall not be based on Customer Information. For example, Pacific shall not request SoCalGas to provide Pacific with a targeted mailing based on SoCalGas' customer-specific gas consumption information without documented customer consent.

4.5 SOCALGAS FACILITIES. Information owned by SoCalGas and also available to customers, such as a customer's account number, meter size and location and the size and location of other SoCalGas facilities on the customer's premises shall be provided to Pacific at SoCalGas' fully assigned cost, except to the extent SoCalGas is legally prohibited from doing so. For example, SoCalGas may provide customer meter location information to Pacific to facilitate Pacific's providing service to customers.

4.6 AGGREGATED INFORMATION. Information owned by SoCalGas which is aggregated and non-customer specific shall be provided to Pacific only upon mutually acceptable terms and conditions.

ARTICLE V.
AUDIT RIGHTS

Each Party shall maintain reasonably complete and detailed records, consistent with its customary accounting practices, substantiating all transactions, customer consents, arrangements, Services and charges under, or relating to, this Agreement. Each Party shall allow representatives of the other to examine, audit, and make copies of such records during normal business hours for a period of four (4) years after the event, or, if later, the date any charges substantiated thereby were billed to Pacific in accordance with this Agreement.

ARTICLE VI.
RELATIONSHIP OF THE PARTIES

6.1 INDEPENDENT CONTRACTOR. Neither Party nor its employees, agents, representatives, or subcontractors shall be deemed employees of the other Party for any purpose whatsoever. SoCalGas shall be deemed an independent contractor to Pacific. Pacific is only interested in the results to be obtained by SoCalGas in the performance of the Services. SoCalGas is responsible for its own operations and its employees shall not be on the payroll of Pacific or entitled to any benefits extended to Pacific's employees. SoCalGas shall be solely liable for withholding and remitting payment for all taxes relating to the Services, including, but not limited to, state and federal income taxes, Social Security tax, self-employment tax, unemployment tax, unemployment insurance premiums, and disability insurance contributions. Nothing in this Agreement shall be construed as

creating an exclusive relationship between Pacific and SoCalGas. Except as may be expressly agreed by the Parties, SoCalGas may provide, and Pacific may obtain, goods or services to or from any third parties with whom they respectively choose to deal.

6.2 SPECIAL PURPOSE EMPLOYMENT. With respect to SoCalGas employees engaged in providing the Services to Pacific, SoCalGas shall be the "General Employer" and the Pacific shall be the "Special Purpose Employer" within the meaning of California law.

ARTICLE VII.
CONFORMANCE WITH LAWS

Each Party shall observe and comply in all material respects with all applicable laws, ordinances, codes, orders, and regulations of governmental agencies, including federal, state, municipal, and local governing bodies, having jurisdiction over performance of the Services, and each Party shall obtain all necessary permits and licenses to perform its obligations under this Agreement. To the extent required by law all federal, state and local contract provisions applicable to the Services, as revised from time to time, are hereby incorporated herein by reference as though fully set forth.

ARTICLE VIII.
INDEMNIFICATION

8.1 GENERAL. Except for claims for which indemnity is provided under Section 8.2, to the fullest extent permitted by law, each Party will indemnify, defend and hold harmless the other Party, its affiliates, officers, directors, employees, agents, representatives, and subcontractors (collectively "Indemnitees") from and against any and all losses, costs (including reasonable attorneys fees for external and internal counsel), fines and penalties, damage, injury, liability, and claims (collectively "Claims") for: (i) injury to or death of persons (including employees of the Parties), (ii) loss of, damage to or destruction of property, and (iii) violation of law; which results directly or indirectly from such indemnifying Party's performance of, or failure to perform, its obligations under this Agreement or any other of such Party's negligent or wrongful actions or omissions in any way related to its obligations under this Agreement; excluding only indemnification for Claims to the extent caused or contributed to by the active negligence or misconduct of the Party to be indemnified, or of its Indemnitees.

8.2 NAME AND BILLING. Pacific shall indemnify, defend and hold harmless SoCalGas from claims and expenses resulting from Pacific's promotion of its goods and services, use of SoCalGas identity association (including, but not limited to, SoCalGas' brand name, logo, trademarks and service marks) and use of SoCalGas' billing envelope and bill.

8.3 SURVIVAL. The foregoing indemnities shall survive termination of this Agreement.

ARTICLE IX.
INTELLECTUAL PROPERTY

SoCalGas reserves the right to approve in advance all publicity and materials using its brand identification (including its name, logo, trademarks and service marks). SoCalGas also reserves the right to approve in advance all publicity and promotional materials intended for SoCalGas' distribution. Publicity, identity association and use of SoCalGas' envelope and bill shall conform to appropriate standards to protect SoCalGas' relationships with its customers, labor force, the public, and other constituencies.

ARTICLE X.
FORCE MAJEURE

In no event shall a Party be liable for breach of this Agreement if it is prevented from, or delayed in, performing its obligations under this Agreement (excluding, however, obligations to pay money) by forces or events not under its control, including, but not limited to, earthquake, fire, flood, other Acts of God, labor disputes, walkouts, or strikes, shortages of parts or materials, riot or civil unrest, war, inability to obtain governmental approvals or permits, or government orders; provided that notice is given with reasonable promptness and the affected Party seeks to resume performance as soon as practicable, and further provided that nothing herein shall require a Party to resolve labor disputes.

ARTICLE XI.
MISCELLANEOUS

11.1 DESIGNATED REPRESENTATIVES. Each Party may, by notice given in accordance with Section 11.2, designate to the other from time to time one or more representatives for the purpose of issuing approvals on behalf of such Party under this Agreement and for other purposes, including (but not limited to) execution of Appendices A and B and amendments and modifications thereto, the approvals provided for in Sections 1.2 (brand), 1.3 (billing and inserts), 3.2 (sales and marketing), 3.4 (promotional materials), 4.6 (aggregated information), and Article IX (intellectual property). SoCalGas initially designates the following officers to make such approvals and upon notice to further delegate such authority: Senior Vice President, Energy Distribution Services, Vice President, Residential Services or Vice President, Commercial & Industrial Services.

11.2 NOTICES. Notices and invoices shall be in writing and sent to the Parties at the addresses set forth below. Notices shall be sent by the Pacific Enterprises inter-office mail system, first class United States mail (postage prepaid), commercial overnight

courier, any form of electronic transmission providing proof of delivery (fax or E-mail), or personal delivery addressed as follows:

PACIFIC:

FOR NOTICES:

Pacific Enterprises Energy Services
633 West Fifth Street
Los Angeles, CA 90071
Attn.: President

FOR INVOICES:

Pacific Enterprises Energy Services
633 West Fifth Street
Los Angeles, CA 90071
Attn.: Controller

SOCALGAS :

FOR NOTICES:

Southern California Gas Company
555 West Fifth Street
Los Angeles, CA 90013
Attn.: Senior Vice President, Energy Distribution
Services

FOR PAYMENTS:

Southern California Gas Company
555 West Fifth Street
Los Angeles, CA 90013
Attn.: Accounts Receivable

11.3 ASSIGNMENT. Neither this Agreement nor any rights or duties under this Agreement shall be assignable by either Party, whether voluntarily, involuntarily, or by operation of law, without the prior written consent of the other Party; provided, however, that SoCalGas may subcontract any or all of its services subject to Pacific's prior approval, which approval shall not be unreasonably withheld. This Agreement shall be binding upon and inure to the benefit of their heirs, successors, or permitted assigns of the Parties.

11.4 INTERPRETATION; MODIFICATION; WAIVER. As used herein "Agreement" means this Master Affiliate Service Agreement" and its Appendices (as in effect from time to time), as duly amended or modified. The interpretation and performance of this Agreement shall be in accordance with the laws of the State of California, and the orders, rules and regulations of the CPUC, in effect from time to time. Except as required to conform with California law and the orders, rules and regulations of the CPUC, no amendment or modification shall be made to this Agreement except by an instrument in writing executed by authorized representatives of the Parties, and no amendment or modification shall be made by course of performance, course of dealing or usage of trade. No waiver by any Party of one or more defaults under this Agreement shall operate or be construed as a waiver of any other default or defaults, whether of a like or different character.

IN WITNESS WHEREOF, this Agreement has been executed as of the Effective Date in duplicate originals by the duly authorized representatives of the Parties.

PACIFIC ENTERPRISES ENERGY SERVICES
a California corporation

SOUTHERN CALIFORNIA GAS COMPANY
a California corporation

By: /s/ Eric B. Nelson

Eric B. Nelson

By: /s/ Warren I. Mitchell

Warren I. Mitchell

Appendices:

- A. Certain Non-Regulated Subsidiaries of Pacific Enterprises (to be attached upon execution pursuant to Section 11.4);
- B. Services (to be attached upon execution pursuant to Section 11.4); and
- C. Affiliate Transaction Rules

APPENDIX A

CERTAIN NON-REGULATED SUBSIDIARIES OF PACIFIC
ENTERPRISES

APPENDIX "A"

Energy Alliance I
Ensource
Pacific Energy
Pacific Energy Leasing
Pacific Enterprises Energy Services
Pacific Enterprises Energy Management Services
Pacific Enterprises LNG Company

APPENDIX B

SERVICES

APPENDIX B
SERVICES

PART B-1
APPLIANCE PROTECTION PLAN.

A. PLAN DESCRIPTION

Pacific's warranty program for repairing various gas and electric appliances. For a monthly fee, appliances will be repaired upon the Customer's request. Under this program, Pacific does not charge to the Customer for the service call. If the estimated repair cost exceeds the value of the appliance, Pacific will pay the Customer the value of the appliance in lieu of repairing it.

B. SCOPE OF WORK

Subject to all of the terms and conditions of the Agreement, SoCalGas shall (at Pacific's expense as provided in provision C of this Part) provide to Pacific, upon Pacific's request, the following Services in connection with this program:

1. BILL INSERT. SoCalGas shall provide envelope space for Pacific's Appliance Protection Plan ("Plan") advertisement. Advertisements shall conform to size and weight specifications agreed to by the Parties. SoCalGas shall notify Pacific if its advertisement, in conjunction with other SoCalGas inserts, will exceed the weight limit for SoCalGas' normal postage rate. Pacific shall be given the choice to withdraw the advertisement from that month's utility bills, or pay any additional postage costs. Each Party will use its best efforts to provide timely notifications of its actions to the other.

2. CUSTOMER RESPONSE FORMS. SoCalGas shall use its best efforts to forward to Pacific, or to a third party authorized by Pacific, all Customer response forms (Plan advertisement tear-offs included with utility bill payments) on a daily basis.

3. CUSTOMER BILLING SERVICE. SoCalGas shall provide billing, payment processing and related services for the Plan. Upon notification that a Customer has accepted the Plan, SoCalGas will add the Plan charge to the Customer's gas bill, effective as of the Customer's next billing cycle. Pacific's notification of Customer acceptance shall, at a minimum, include Customer name, address, home phone number with area code, and the selected option. SoCalGas shall notify Pacific which Customers were billed, the amount billed, which Customers paid, the amount paid and dates paid. In addition, SoCalGas will provide bill insert services for Pacific, and will respond to incidental Customer inquiries received by the SoCalGas Call Center with respect to the Plan. All notifications to be provided by one Party to the other Party in accordance with this section shall be transmitted

and authenticated electronically via tape, diskette, facsimile machine, or otherwise. SoCalGas shall receive a daily listing from Pacific that contains the name, address, home phone number with area code, SoCalGas' Bill Account Number (if known), the Plan purchased, and optional coverages purchased. The listing shall be transmitted and authenticated electronically via tape, diskette, facsimile machine or otherwise. SoCalGas will add the Plan (and optional coverage) charges as one line item on the Customer's gas bill which will read: "Appliance Protection Plan."

4. PAYMENT PROCESSING. SoCalGas shall receive customers' payments for gas and other charges included on the bill, which includes Plan payments. SoCalGas shall process all payments in the same manner as SoCalGas processes its other customers' bills in the normal course of business, namely, within two (2) business days of receipt if paid by mail or in a branch office; within three (3) business days if paid through an Authorized Payment Agency. In the event of a partial payment, SoCalGas shall apply the payment against SoCalGas' bill first and any balance against Pacific's Plan charges. If there is a previous balance, current utility charges will be credited before being applied against a delinquent Plan balance.

5. CALL CENTER. SoCalGas' Call Center may receive calls regarding the Appliance Protection Plan. Calls regarding Plan coverage, general information, incidental questions about the Plan, or requests for enrollment or cancellation, shall be referred to Pacific or its authorized third party. Calls regarding the Appliance Protection Plan line item on the utility bill shall be resolved by SoCalGas.

6. REPORTS. SoCalGas shall provide to Pacific two (2) reports with the following information:

(a) BILLING REPORT. Customer name, home phone number with area code as provided by Pacific, SoCalGas Account Number, amount billed for the Plan, date billed, and billing adjustments. SoCalGas shall use reasonable efforts to issue this report to Pacific on a daily basis.

(b) PAYMENT REPORT. Customer name, home phone number with area code as provided by Pacific, SoCalGas Account Number, amount paid for the Plan, date paid, and payment adjustments. SoCalGas shall use reasonable efforts to issue this report to Pacific on a daily basis.

(c) TRANSMITTAL. Reports shall be transmitted and authenticated electronically via tape, diskette, facsimile machine or otherwise.

7. TRANSFER OF FUNDS. SoCalGas shall remit to Pacific all funds paid to SoCalGas on account of the Plan in accordance with mutually agreeable procedures.

C. CHARGES.

COST REIMBURSEMENT. Pacific shall pay SoCalGas for all Appliance Protection Plan Services at the fully assigned direct and indirect costs of SoCalGas as provided in Sections 3.1 and 3.5 of the Agreement. These charges will be "trued-up" annually to reflect actual recorded costs.

Approved by the Parties as of September 1, 1996

Pacific Enterprises Energy Services,
a corporation

Southern California Gas Company,
a corporation

By: /s/ Eric B. Nelson

By: /s/ Pamela J. Fair

Title: President

Title: V.P Residential Services

APPENDIX B
SERVICES

PART B-2
SEISMIC SERVICES PLAN

A. PLAN DESCRIPTION

Pacific's program for sale and installation of a new earthquake valve. This program also includes the sale and installation of any of several state architect-approved water heater braces which reduce the risk of water heaters toppling over during an earthquake.

B. SCOPE OF WORK

Subject to all of the terms and conditions of the Agreement, SoCalGas shall (at Pacific's expense as provided in provision C of this Part) provide to Pacific, upon Pacific's request, the following Services in connection with this program:

1. MANUFACTURING.

a. SoCalGas has provided and shall provide all services necessary to produce for Pacific the completed (manufactured, assembled, painted, labeled, and packaged (for wholesale)) earthquake shut-off valve ("valve" or "Seismic Product"), in accordance with the design specifications, the terms of which are incorporated by reference ("Specifications") which have been provided to SoCalGas. These services also include assisting Pacific in obtaining certification of the Seismic Product, quality assurance of the manufacture of the valve body, and such testing of the Seismic Product (including the first article pilot production valves) as Pacific reasonably requires in order to assure that each of the parts meets the Specifications. Further, SoCalGas shall pressure test each and every valve produced for Pacific.

b. Pacific shall order the Seismic Product pursuant to its standard purchase order or orders, the terms of which are incorporated by reference.

c. Notwithstanding Section 8.1 of the Agreement, to the fullest extent permitted by law, Pacific will indemnify, defend and hold harmless SoCalGas and its Indemnitees from and against any and all claims for (i) injury to or death of persons (including employees of the Parties), and (ii) loss of, damage to or destruction of property, which results directly or indirectly from the Seismic Product or its use ("Claims"); excluding only indemnification for Claims to the extent caused or contributed to by the active negligence or misconduct of SoCalGas or of its Indemnitees.

2. ON-GOING QUALITY CONTROL. SoCalGas shall provide such testing of the Seismic Product as is required to maintain its certification by the Office of the State Architect (and International Approval Services).

3. WAREHOUSING AND SHIPPING. SoCalGas shall provide warehousing of the Seismic Product and shipping services to Pacific's installation subcontractors (both SoCalGas and licensed plumbers).

4. BY-PASS EQUIPMENT. SoCalGas shall sell to Pacific those quantities of by-pass kits (each with two bottles), as shall be mutually agreed to pursuant to Pacific's purchase order for same. This service shall include exchanging for Pacific (or its subcontractors) empty bottles for filled bottles.

5. TRAINING. SoCalGas shall provide training to Pacific and its subcontractors to qualify them in accordance with SoCalGas' Tariff Rule No. 10.I allowing contractors other than SoCalGas to install automatic seismic shut-off valves on SoCalGas' side of the meter, as long as such contractors have been qualified by SoCalGas.

6. FIELD INSTALLATION. SoCalGas shall provide valve installation services to Pacific in accordance with its Tariff Rule No. 10.I. Pacific shall telecopy an order to SoCalGas once a day (following its receipt of the Meter Information, discussed below) with a list of each valve to be installed.

7. INSTALLATION QUALITY ASSURANCE. SoCalGas shall provide quality assurance services for such installations as are requested by Pacific.

8. METER INFORMATION. SoCalGas shall provide Pacific with the following information, in accordance with the following schedule:

a. Once a day, Pacific shall telecopy to SoCalGas a list of all order information for Pacific's orders (for installation of its valve) received the prior day.

b. SoCalGas shall check its Customer Information System (CIS) records to verify the address, meter size and location code ("Meter Information") of each transaction. Within twenty four (24) hours of its receipt of the information from Pacific, SoCalGas shall return the Meter Information to Pacific.

C. CHARGES.

1. MONTHLY CHARGES.

a. ON-GOING QUALITY CONTROL. The cost of testing by a third party shall be billed directly to Pacific. The costs to ship the valve to the

testing site is expected to be di minimis and therefore will not be billed to Pacific.

b. WAREHOUSING AND SHIPPING

A charge per month per valve for warehousing, or other mutually agreed-upon payment to recover SoCalGas' actual warehousing costs.

A charge per order and per valve plus actual shipping costs.

2. ONE TIME AND PER-USE CHARGES.

a. MANUFACTURING. Actual direct and indirect manufacturing costs (including labor, non-labor and overheads) incurred for the valves manufactured for Pacific.

b. BY-PASS EQUIPMENT. A charge per kit (including two cylinders) and charges for cylinder exchange or refill.

c. TRAINING. The charge will be the "competitive charge" SoCalGas determines pursuant to Tariff Rule 10.I for training provided to all contractors.

d. FIELD INSTALLATION. Per Tariff Rule 10.I.

e. INSTALLATION QUALITY ASSURANCE. A charge per hour for Field Service Representative time.

3. COST REIMBURSEMENT. Pacific shall pay SoCalGas for all Seismic Services Plan Services at the fully assigned direct and indirect costs of SoCalGas

as provided in Sections 3.1 and 3.5 of the Agreement. These charges will be "trued-up" annually to reflect actual recorded costs.

Approved by the Parties as of September 1, 1996

Pacific Enterprises Energy Services, Southern California Gas Company,
a corporation a corporation

By: /s/ Eric B. Nelson By: /s/ Pamela J. Fair

Title: President Title: V.P. Residential Services

APPENDIX B
SERVICES

PART B-3
APPLIANCE REPAIR AND APPLIANCE CLUB SERVICES PLAN

A. PLAN DESCRIPTION.

Pacific's repair service program for major gas and electric household appliances and patio products (including pool and spa heaters). Unlike the Appliance Protection Plan program, under the appliance repair service program Customers are charged only when repairs are performed. The Appliance Club is an association of Customers who receive free annual safety checks of heaters and air conditioners, 10% discounts on appliance repairs, automatic reminders of the need to change filters, and free furnace filters every heating season.

B. SCOPE OF WORK.

Subject to all of the terms and conditions of the Agreement, SoCalGas shall (at Pacific's expense as provided in provision C of this Part) provide to Pacific, upon Pacific's request, the following Services in connection with this program:

1. TRAINING. SoCalGas shall provide training to Pacific and its subcontractors in repairing and restoring gas appliances and equipment.

2. QUALITY ASSURANCE. SoCalGas shall provide quality assurance services for the Appliance Repair and Appliance Club in accordance with procedures to be mutually agreed upon. For work involving gas appliances, SoCalGas' services shall in accordance with its usual quality and assurance standards.

C. CHARGES.

1. TRAINING. Actual direct and indirect costs (labor, non-labor and overheads) for each course provided.

2. QUALITY ASSURANCE. Actual direct and indirect costs (labor, non-labor and overheads) for work done. Costs will be charged on a per call basis using a mutually agreeable estimate.

3. COST REIMBURSEMENT. Pacific shall pay SoCalGas for all Appliance Repair and Appliance Club Services at the fully assigned direct and indirect costs

of SoCalGas as provided in Sections 3.1 and 3.5 of the Agreement. These charges will be "trued-up" annually to reflect actual recorded costs.

Approved by the Parties as of September 1, 1996

Pacific Enterprises Energy Services,
a corporation

Southern California Gas Company,
a corporation

By: /s/ Eric B. Nelson

By: /s/ Pamela J. Fair

Title: President

Title: V.P. Residential Services

APPENDIX B
SERVICES

PART B-4
MONITORING, MAINTENANCE AND REPAIR SERVICES PLAN

A. PLAN DESCRIPTION

Pacific's repair services program involves Pacific's designation as an "authorized service provider" (a Factory Authorized Service Center or "FASC") by major manufacturers of commercial cooking equipment. Pacific's equipment repair and maintenance service will provide factory warranty services and parts for both gas and electric cooking equipment, with the eventual plan to offer full service on heating, ventilating and air conditioning systems.

Pacific's equipment monitoring program includes food service equipment-- food holding and cooking temperatures--to assure compliance with regulatory standards as well as attain energy efficiency. Additionally, Pacific will provide remote monitoring and control of heating, ventilation, and air conditioning (HVAC) and lighting equipment to save energy for Customers.

B. SCOPE OF SERVICES

Subject to all of the terms and conditions of the Agreement, SoCalGas shall (at Pacific's expense as provided in provision C of this Part) provide to Pacific, upon Pacific's request, the following Services in connection with this program:

1. RESTAURANT APPLIANCE REPAIR & MAINTENANCE SERVICES. SoCalGas will provide trained and qualified service technicians to repair restaurant appliances included in the plan. This includes:

a. Having a qualified service technician contact the Customer by telephone within one (1) hour of receiving the order. During normal business hours (8 a.m. - 5 p.m., Monday - Friday), the service technician will be in the Customer's place of business within four (4) hours of the Customer's initial call time, unless the Customer schedules a later time.

b. Providing service after-hours, weekends, and on holidays when requested by the Customer.

c. Repairing the restaurant appliance(s).

d. When a commercial service technician identifies a FASC repair during normal utility business, calling Pacific's dispatch to obtain authorization to make the repair, and then if directed by Pacific and if the

Customer agrees (after being informed of other providers per section 6.a below), repairing the appliance(s) using qualified service technicians.

e. To the extent practical, SoCalGas will provide service within its service territory per a list of bases provided to Pacific.

2. NEW EQUIPMENT START-UP. SoCalGas will provide trained and qualified service technicians to install, test, start-up, and certify restaurant appliances for which Pacific is the FASC.

3. APPLIANCE SERVICE TRAINING. SoCalGas will provide trained workforce and, as agreed upon, will train other third-party servicers to install, maintain, and repair designated restaurant appliances for manufacturers.

4. PARTS SUPPLY. SoCalGas will provide a parts supply function which will include the following:

a. Purchasing original equipment manufacturer (OEM) parts directly from the manufacturers.

b. Taking delivery of the parts and storing them.

c. Providing quality assurance by visually inspecting shipments to verify that the correct parts and quantity were shipped and that the parts appear to be in satisfactory condition.

d. Distributing parts to SoCalGas personnel.

e. Distributing the parts to other Pacific Enterprises network service providers in an emergency (via mail or pick-up).

5. CALL CENTER. SoCalGas will use its GAS2000 Call Center to receive and screen restaurant equipment servicing calls and send resulting service orders to either the SoCalGas or Pacific dispatch centers, as mutually agreed.

6. MARKETING. On a best efforts basis, SoCalGas will market Pacific's Monitoring, Maintenance and Equipment Repair Plan services as follows:

a. Pacific recognizes that a SoCalGas representative's primary purpose is to assist Customers in utilizing natural gas in a safe and efficient fashion. Nevertheless a Customer may find that Pacific's products and services (as well as those of competing providers) facilitate safe and efficient gas use. Pacific understands that a SoCalGas representative may mention that Pacific provides restaurant appliance repair and maintenance services only if the representative informs the customer that other qualified providers provide the service as well. If the customer has no objection, the SoCalGas representative may (but is not obligated to) leave behind with the Customer Pacific's informational materials (as approved by SoCalGas) on a non-exclusive basis, along with any approved list of referrals normally provided by SoCalGas. If there is no referral list, the Customer will be reminded that other providers may be found in the phone book or relevant industry directory. The Customer will also be informed

that such services are not subject to CPUC regulation. The SoCalGas representative will annotate the customer file or the appropriate customer information system to reflect any referrals to Pacific.

b. To the extent that Pacific and SoCalGas have made special arrangements for the use of certain sales force employees and consistent with the provisions of the Agreement (particularly Section 3.2 and Article IV), the sales employees so selected may provide sales and marketing assistance to Pacific. These services will be provided, not as part of the respective employee's normal duties for SoCalGas, but at Pacific's expense as specifically directed by Pacific in an independent contractor relationship between the employee, SoCalGas and Pacific.

7. OFFICE REPORTING. SoCalGas shall document each transaction as listed in this Part B-4 by providing invoices to Customers and Pacific.

8. OTHER. SoCalGas may provide Pacific with various other related services in connection with the Appliance Repair and Maintenance program, as may be mutually agreed upon, such as providing work order forms, collateral materials, billing, collections, dispatch, quality assurance.

C. CHARGES.

Pacific shall pay SoCalGas for Monitoring, Maintenance and Equipment Repair Plan Services at the fully assigned direct and indirect costs of SoCalGas as provided in Sections 3.1 and 3.5 of the Agreement. These charges will be "trued-up" annually to reflect actual recorded costs.

Approved by the Parties as of September 1 1996

Pacific Enterprises Energy Services,
a corporation

Southern California Gas Company,
a corporation

By: /s/ Eric B. Nelson

By: /s/ Richard M. Morrow

Title: President

Title: VICE PRESIDENT-

COMMERCIAL & INDUSTRIAL SERVICES

APPENDIX B
SERVICES

PART B-5
PIPELINE DESIGN AND CONSTRUCTION

A. PLAN DESCRIPTION

Pacific's program to design and construct functional natural gas pipelines or similar utility infrastructures on the Customer's side of the gas meter. This service can involve replacement of an existing "house" or "yard" line and/or installation of a new line.

B. SCOPE OF WORK

Subject to all of the terms and conditions of the Agreement, SoCalGas shall (at Pacific's expense as provided in provision C of this Part) provide to Pacific, upon Pacific's request, the following Services in connection with this program:

1. ENGINEERING AND DRAWINGS. Provide engineering calculations and prepare, organize and present drawings in an Autocad format to be determined by Pacific. Provide drawings complete, accurate and explicit enough to show substantial compliance with applicable industry and utility standards to permit construction. When required, each drawing shall bear the stamp or seal of the California-registered architects or engineers responsible for the design. When required, SoCalGas shall submit drawings and calculations to appropriate agencies for approval. Provide as-built drawings after completion of each project. As-built drawings shall be submitted in paper copies as well as a digitized format.
2. CONSTRUCTION MANAGEMENT. SoCalGas shall designate an individual having responsibility for each project who shall, on a pre-agreed regular basis, provide information as requested by Pacific that will allow Pacific to determine the status and schedule of SoCalGas' work.
3. QUALITY CONTROL. As required, SoCalGas shall establish and maintain a Quality Control ("Q.C.") Plan for each project. Such Plan shall consist of a set of agreed-upon Q.C. procedures for both on-site and off-site work. SoCalGas shall appoint a Q.C. Manager whose main responsibilities are to implement and manage the Q.C. program on each project. The Q.C. Manager shall report directly to Pacific's project manager and can be the same individual as the project superintendent.
4. MATERIALS. SoCalGas shall provide materials that meet industry and utility standards. When required, material submittals shall be made allowing

sufficient time for processing, reviewing, and approving, prior to delivery of materials to the job site.

5. EQUIPMENT AND LABOR. SoCalGas shall provide all equipment and labor required to perform the work in an expeditious manner. SoCalGas shall not knowingly utilize equipment that is defective or not functioning properly. All operators of equipment shall be trained and be proficient in operating the equipment prior to commencing the work. All labor shall substantially conform to industry and utility standards.

C. CHARGES.

Pacific shall pay SoCalGas for all Pipeline Design and Construction Services at the fully assigned direct and indirect costs of SoCalGas as provided in Sections 3.1 and 3.5 of the Agreement. These charges will be "trued-up" annually to reflect actual recorded costs.

D. ADDITIONAL TERMS AND CONDITIONS.

1. SOCALGAS REGION MANAGER APPROVAL. Upon Pacific receiving a request by Customer to proceed with a project, Pacific shall provide to SoCalGas a Scope of Work document that describes the work to be provided by SoCalGas. The Scope of Work document shall include pertinent information about the Customer, description of work to be performed by SoCalGas, and any special terms and conditions. Prior to start of work, SoCalGas shall submit the Scope of Work document to the responsible Region Manager for approval. Upon approval and execution on behalf of SoCalGas, Pacific shall be provided a fully executed duplicate original.
2. FEDERAL OR STATE SUBCONTRACTS. If the specific Customer under any Scope of Work document is a federal, state, or local governmental entity, Pacific's Scope of Work document shall include, by attachment, all applicable

governmental contractor contract clauses, and by execution of the Scope of Work document SoCalGas shall be deemed to have assumed and agreed to be bound by them.

Approved by the Parties as of September 1 1996

Pacific Enterprises Energy Services,
a corporation

By: /s/ Eric B. Nelson

Title: President

Southern California Gas Company,
a corporation

By: /s/ (illegible)

Title:

APPENDIX C

AFFILIATE TRANSACTION RULES

PACIFIC ENTERPRISES COMPANIES

POLICY MEMORANDUM ON AFFILIATE TRANSACTIONS AND ACTIVITIES

ALLOCATION OF BUSINESS UNIT AND POLICY GROUP COSTS

POLICY - THIS POLICY IS APPLICABLE TO THE COST OF SERVICES AND PROPERTY PROVIDED TO OR FROM ANY OF THE PACIFIC ENTERPRISES (PE) COMPANIES BUSINESS UNITS OR POLICY GROUPS. THIS MEMORANDUM UPDATES THE POLICY MEMORANDUM ON AFFILIATE TRANSACTIONS AND ACTIVITIES DATED JULY 1, 1995. THIS POLICY IS EFFECTIVE AS OF JANUARY 1, 1996.

The cost of services provided and other charges by one Business Unit (BU) or Policy Group (PG) on behalf of another BU or PG should generally be allocated to the respective BU or PG receiving the benefit of those services based on the fully assigned cost including nonlabor charges. The fully assigned (loaded) cost includes direct labor as well as indirect overhead and fixed cost factors (under these guidelines, the terms "fully assigned cost" and "fully loaded cost" are used interchangeably). The cost allocation policies described in this memorandum are generally consistent with many of the policies previously used by PE and its affiliates and are consistent with the cost assignment guidelines for new products and services.

The intent of this memorandum is to formally document the BU and PG allocation policy for the PE companies and to provide consistency in the allocation process. As used in the policy and guidelines, the term affiliate relationships refers to activities and transactions between regulated business units and unregulated business units, policy groups or shareholder-funded products and services (i.e., TEEM, Seismic Services).

This policy and the related guidelines are reviewed and updated at least annually. PE Corporate Accounting (within the Finance & Planning Policy Group) has the primary responsibility for the update of this policy.

GENERAL PRINCIPLES

- - Cost allocation methods and procedures should be simple and the resulting calculations should enhance the BU's understanding of its economic performance, costs and profitability of business segments, products and services.
- - This policy mandates the allocation of PE Public Policy & Law, Finance & Planning and Human Resources group costs to all affiliates based on a fair and equitable methodology (see Appendix A).
- - New Product Development (NPD) costs will not be allocated to other business units until associated with a specific project that has been approved for implementation by the sponsoring BU.

APPENDIX "C"

- - General and administrative costs charged to the Office of the Chairman will not be allocated to business units, unless special circumstances warrant.
- - Cost relating to use of tangible property will be charged on the basis of fully loaded costs, or for fully depreciated property, on the basis of a comparable market rate. The cost for use of intangible assets will not normally be allocated because of the complexity and subjectivity in valuing such assets and the lack of perceived benefit from the resulting estimate. Consideration will be given to allocating such costs if unique factual circumstances warrant. Any transfers of tangible or intangible property (including real, personal and intellectual property) from a regulated to an unregulated business unit shall be made on a fair market value basis to the extent practicable.

DEFINITION OF TRANSACTION TYPE

- - Inter-Affiliate Transaction is between two unregulated BUs or between a regulated BU and unregulated BU. This policy is applicable.
- - Policy Group Transaction is between a Policy Group and any of the BUs. This policy is applicable.
- - Intra-Regulated BU Activities are within EDS, ETS or TS and the product or service is shareholder-funded. This policy is applicable.
- - Inter-Regulated BU Transactions among Energy Distribution Services (EDS), Energy Transportation Services (ETS) and Transportation Services (TS). This policy is not applicable to these transactions. Refer to Shared Services cost allocation policies and procedures.

ALLOCATION METHODS

- - Direct Assignment Costs can be specifically identified and assigned to a BU or PG on a direct basis (i.e., direct labor hours tracked by time keeping process or a transaction specifically identified and chargeable to a BU). In certain instances, there may also be a chargeback to a BU or PG based on market rates.
- - Cost Driver Allocation Transactions can be tracked, and actual costs can be directly allocated to the appropriate BU by a specific cost driver (i.e., accounts payable by number of invoices, payroll by FTEs, etc.). The use of cost driver reallocations will vary depending on the circumstances and available information. For example:
 - If the invoice detail is available in an automated form, the actual accounts payable could be allocated using a different percentage each month based upon the actual number of invoices.

- If the detail on a cost driver is not readily available, a cost driver analysis (based on prior year actual, or current year budget) could be done, and the percentages would be applied for the entire year.

- - Multi-Factor Based Formula Cost Allocation This method is used where transactions cannot be directly assigned, and therefore are allocated on a fair and consistent basis. This formula equally weights assets, revenue and payroll dollars based on the annual budgets of all the PE Companies.
- - Flat Percentage Cost Allocation This method is applicable where the use of the multi-factor formula is either not appropriate or not applicable. Flat percentages will generally be determined during the budget planning process and will be based on estimated future usage of the service or expected incurrence of the charge based on past history. The assumptions and rationale for using a flat percentage should be documented.

ALLOCATING THE FULLY ASSIGNED COSTS OF LABOR SERVICES

The cost of labor services should be allocated on a fully assigned basis. In general, this includes direct labor dollars, as well as an allocation of pension and other employee benefits, payroll taxes, workers' compensation, insurance, space, equipment and other nonlabor charges.

IT IS THE INTENT OF THIS POLICY THAT THE COST OF THE RECORDKEEPING REQUIREMENTS ASSOCIATED WITH THE TRACKING, RECORDING AND ASSIGNMENT OF COSTS SHOULD BE REASONABLE AND SHOULD NOT EXCEED THE VALUE OF IDENTIFYING AND REPORTING THE ASSIGNED COSTS. In allocating the fully assigned cost of labor services, the following implementation guidelines are applicable.

- - Tracking of direct labor hours is only required by a person or group or individuals within a unit who expect to spend more than 100 hours or more than \$25,000 in direct labor charges annually on a project or activity.

As used herein, the term project refers to an overall product or service, such as TEEM, and not to individual prospective customers for such products or services.

- - Management employees, who are tracking their time for cost assignment purposes, but are not dedicated members of the project team may use a flat percentage factor to allocate their labor. For example, if the management employee generally works a 50-hour work week and works 5 hours per week to support a particular project, then 10 percent (5/50) of the employee's total salary should be charged to the project. Each "non-dedicated" management employee must document the calculation of the applicable labor assignment percentage.

If it is expected that a group of individuals within the same department or functional area will incur over 100 hours or more than \$25,000 in direct labor charges on a cumulative basis on a specific project, the FTE (full-time equivalent) hours and cost should be estimated and assigned.

ALLOCATION PROCEDURES AND METHODS

The PGs and each BU will develop and document their own specific processes and procedures for identifying, tracking, summarizing and billing affiliate transactions. PE Corporate Accounting group has the overall responsibility for the tracking and billing of PG allocations to the BUs and for documenting PG processes and procedures. Each BU in turn is responsible for its allocations to a PG or other BUs as well as the review of cost allocations from such affiliates.

Individuals or entities whose services are either not being billed out or who are being billed out using the Multi-Factor Formula or the Flat Percentage Allocation methods may from time to time work on "Special Projects" which require separate billing. If it is expected that a substantial amount of time worked (defined as over 100 hours or in excess of \$25,000) will be related to a Special Project directly billable to an affiliate or shareholder-funded project such hours will be tracked and billed separately.

Capital expenditures and inventory costs associated with a shareholder-funded project whether regulated or unregulated, should be identified, tracked and recorded separately to allow for proper determination of and accounting for depreciation expense and inventory costs. Any chargeback will be made at the fully loaded cost.

For computer systems costs and other fixed assets which have already been expensed and/or depreciated, a chargeback usage amount or rate will be estimated based upon a comparable market rate.

APPENDIX A

ALLOCATION METHODS

Generally, PG costs are allocated using the multi-factor formula, however, there are some variations as summarized below:

- AUDIT SERVICES Multi-Factor Formula - Billings will be done using the multi-factor formula method. However, on a quarterly basis, a comparison will be performed using the group's internal timekeeping system as a benchmark.
- A true-up will be performed if the use of the multi-factor formula vs. an allocation based on total direct hours per the timekeeping system results in a distortion of the total annual cost allocation by the lesser of 10% or \$100,000.
- LAW Direct Assignment - Labor billed directly for BU counsel and hourly for other attorneys based upon the group's internal timekeeping system. The labor cost for the General Counsel space costs and all other general and administrative costs will be allocated using the multi-factor formula.
- A true-up will be performed if the use of the multi-factor formula results in a distortion of the total annual cost allocation by the lesser of 10% or \$100,000.
- ADVISORY SERVICES AND TAX DEPARTMENT Direct Assignment - Billing based upon each respective group's internal timekeeping system.
- RISK MANAGEMENT Direct Assignment of insurance premiums and claim costs. All other general and administrative costs will be assigned using a flat percentage allocation based on historical usage.
- PENSION AND BENEFITS The percentage rate is calculated based on the ratio of total pension and benefit dollars to total labor dollars. Cost reports will reflect direct labor as well as pension and benefits burden. Pension and benefits refer to contributions made by the company for medical related programs, pension/401K, and workers' compensation.
- PAYROLL TAXES Actual rate for employer paid FICA will be applied to total labor dollars by cost center.

FIRST AMENDMENT TO MASTER AFFILIATE SERVICE AGREEMENT

THIS FIRST AMENDMENT TO MASTER AFFILIATE SERVICE AGREEMENT (the "Amendment") is made and entered into effective as of January 15, 1997 (the "Effective Date"), between Pacific Enterprises Energy Management Services on its own behalf and as attorney in fact for certain non-regulated subsidiaries of wholly and partially Pacific Enterprises identified on Appendix "A" of this Agreement ("Pacific") and Southern California Gas Company ("SoCalGas"). Pacific and SoCalGas are each referred to in this Agreement individually as a "Party," and collectively as the "Parties." The Parties hereby agree as follows:

RECITALS

WHEREAS, the Parties entered into that certain Master Affiliate Service Agreement (the "Agreement") effective as of September 1, 1996 and the Parties wish to amend the Agreement to add additional parties as provided in this Amendment.

NOW THEREFORE, the Parties agree as follows:

AGREEMENT

1.1 By this Amendment the Parties hereby add Mineral JV, L.L.C. as an additional party to the Agreement, and the version of Appendix "A" that is attached to the Agreement is hereby replaced with the version of Appendix A that is attached to this Amendment.

1.2 Capitalized terms used in this Amendment shall have the meanings set forth in the Agreement.

1.3 As amended by this Agreement, the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment has been executed as of the Effective Date in duplicate originals by the duly authorized representatives of the Parties.

PACIFIC ENTERPRISES ENERGY
MANAGEMENT SERVICES
a California corporation

SOUTHERN CALIFORNIA GAS
COMPANY
a California corporation

By: /s/ Eric B. Nelson

By: /s/ Warren I. Mitchell

Eric B. Nelson

Warren I. Mitchell

MINERAL JV, L.L.C.
a California limited liability company

By: /s/ Eric B. Nelson

Eric B. Nelson

Appendix "A" - Certain Non-Regulated Wholly-Owned and Partially-Owned
Subsidiaries of Pacific Enterprises.

APPENDIX "A"

1. Energy Alliance I
2. Ensource
3. Mineral JV, L.L.C.
4. Pacific Energy
5. Pacific Energy Leasing
6. Pacific Enterprises Energy Services
7. Pacific Enterprises Energy Management Services
8. Pacific Enterprises LNG Company

SUBSIDIARIES OF SOUTHERN CALIFORNIA GAS COMPANY

EcoTrans OEM Corporation
Southern California Gas Tower

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-51322, 33-53258, 33-59404 and 33-52663 of Southern California Gas Company on Forms S-3 of our report dated January 28, 1996, appearing in this Annual Report on Form 10-K of Southern California Gas Company 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 CONOLIDATED INCOME, BALANCE SHEET AND CASH FLOWS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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376,380		
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	834,889	
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	96,551	
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147,000		
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1,991,455		
2,135,668		
286,313		
	511	
286,824		
85,713		
	201,111	
8,228		
192,883		
	0	
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637,986		
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