SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)
[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 1998

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ------- to -------

PACIFIC ENTERPRISES

(Exact name of registrant as specified in its charter)

CALIFORNIA	1-40	94-0743670
(State of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.

555 WEST FIFTH STREET, LOS ANGELES, CALIFORNIA 90013

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (213)244-1200

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

Title of each class	Name of each exchange on which registered
Preferred Stock:	American and Pacific
$4.75 dividend	
$4.50 dividend	
$4.40 dividend	
$4.36 dividend	

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

Exhibit Index on page 67. Glossary on page 70.

Aggregate market value of the voting preferred stock held by non-affiliates of the registrant as of March 26, 1999 was $67.6 million.

Registrant's common stock outstanding as of March 26, 1999 was wholly owned by Sempra Energy.

DOCUMENTS INCORPORATED BY REFERENCE:
Portions of the Information Statement prepared for the May 1999 annual meeting of shareholders are incorporated by reference into Part III.

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This report includes forward-looking statements within the definition of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "estimates," "believes," "expects," "anticipates," "plans" and "intends," variations of such words, and similar expressions, are intended to identify forward-looking statements that involve risks and uncertainties which could cause actual results to differ materially from those anticipated.

These statements are necessarily based upon various assumptions involving judgments with respect to the future including, among others, local, regional, national and international economic, competitive, political and regulatory conditions and developments, technological developments, capital market conditions, inflation rates, interest rates, energy markets, weather conditions, business and regulatory or legal decisions, the pace of deregulation of retail natural gas and electricity industries, the timing and success of business development efforts, 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 are reasonable, there can be no assurance that they will approximate actual experience, or that the expectations will be realized. Readers are urged to carefully review and consider the risks, uncertainties and other factors which affect the Company's business described in this annual report and other reports filed by the Company from time to time with the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS

Description of Business

Pacific Enterprises (PE or the Company) is an energy services company whose principal subsidiary is Southern California Gas Company (SoCalGas), the nation's largest natural gas distribution utility. Effective June 26, 1998, PE and Enova Corporation (Enova) combined to form Sempra Energy, a California-based Fortune 500 energy-services company (PE/Enova Business Combination). San Diego Gas & Electric Company (SDG&E), an operating public utility which provides electric and natural gas service to San Diego County and southern Orange County, is the principal subsidiary of Enova. Further discussion of PE and the PE/Enova Business Combination are included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 1 of the "Notes to Consolidated Financial Statements," herein.

GOVERNMENT REGULATION

PE's principal subsidiary, SoCalGas, is regulated by local, state and federal agencies, as described below. Regulation of PE's other subsidiaries is insignificant.

Local Regulation

SoCalGas has gas franchises with the 236 legal jurisdictions in its service territory. These franchises allow SoCalGas to locate facilities for the transmission and distribution of natural gas in the streets and other public places. Most of the franchises do not have fixed terms and continue indefinitely. The range of expiration dates for the franchises with definite terms is 2003 to 2041.

State Regulation
The California Public Utilities Commission (CPUC) regulates SoCalGas' rates and conditions of service, sales of securities, rate of return, rates of depreciation, uniform systems of accounts, examination of records, and long-term resource procurement. The CPUC also conducts various reviews of utility performance and conducts investigations into various matters, such as deregulation, competition and the environment, to determine its future policies.

Federal Regulation
The Federal Energy Regulatory Commission (FERC) regulates the interstate sale and transportation of natural gas, the uniform systems of accounts and rates of depreciation.

Licenses and Permits
SoCalGas obtains a number of permits, authorizations and licenses in connection with the transmission and distribution of natural gas. They require periodic renewal, which results in continuing regulation by the granting agency.

Other regulatory matters are described throughout this report.

SOURCES OF REVENUE

(In Millions of Dollars)	1998	1997	1996
Operating Revenue by type of customer:			
Gas Sales, Transportation & Exchange-			
Residential	$ 1,987	$ 1,736	$ 1,613
Commercial/Industrial	727	757	709
Utility Electric Generation	66	76	70
Wholesale	66	67	70
	2,846	2,636	2,462
Balancing and Other	(419)	5	(40)
Total Gas Revenues	2,427	2,641	2,422
Other Operating Revenues	45	97	141
	$ 2,472	$ 2,738	$ 2,563

Industry segment information is contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 14 of the "Notes to Consolidated Financial Statements" herein.

NATURAL GAS OPERATIONS

UTILITY SERVICES
SoCalGas distributes natural gas throughout a 23,000 square-mile service territory with a population of approximately 17.6 million people. Its service territory includes most of southern California and part of central California.

SoCalGas offers two basic services, sale of natural gas and transportation of natural gas, through two business units. One business unit focuses on core distribution customers and the other on large volume gas transportation customers. Natural gas service is also provided on a wholesale basis to the distribution systems of the City of Long Beach, affiliated company SDG&E and Southwest Gas Corporation.

Supplies of Natural Gas
SoCalGas buys natural gas under several short-term and long-term contracts. Short-term purchases are based on monthly-spot-market prices. SoCalGas has pipeline capacity contracts with pipeline companies that expire at various dates through 2006.

Most of the natural gas purchased and delivered by SoCalGas is produced outside of California. These supplies are delivered to SoCalGas' intrastate transmission system by interstate pipeline companies, primarily El Paso Natural Gas Company and Transwestern Natural Gas Company. These interstate companies provide transportation services for supplies purchased from other sources by SoCalGas or its transportation customers. The rates that interstate pipeline companies may charge for natural gas and transportation services are regulated by the FERC. Existing pipeline capacity into California exceeds current demand by over 1 billion cubic feet (bcf) per day. The implications of this excess are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein. The following table shows the sources of natural gas deliveries from 1994 through 1998.

	Year Ended December 31				
	1998	1997	1996	1995	1994
Gas Purchases (billions of cubic feet)					
Market	270	229	226	206	247
Affiliates	101	95	96	99	101
California Producers & Federal Offshore	3	5	12	29	36
Total Gas Purchases	374	329	334	334	384
Customer-Owned and Exchange Receipts					
Affiliate	116	100	96	89	93
Other	521	514	422	531	565
Storage Withdrawal (Injection) - Net	(28)	(3)	42	(13)	(9)
Company Use and Unaccounted For	(21)	(10)	(10)	(4)	(13)
Net Deliveries	962	930	884	937	1,020
Cost of Gas Purchased(millions of dollars)					
Commodity Costs	$ 774	$ 849	$ 627	$ 478	$ 644
Fixed Charges*	174	250	276	264	368
Total Gas Purchases	$ 948	$1,099	$ 903	$ 742	$1,012
Average Cost of Gas Purchased (dollars per thousand cubic feet)**	$2.07	$ 2.58	$1.88	$1.42	$ 1.68

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

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

Market sensitive natural 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 72 percent of total natural gas volumes purchased by SoCalGas during 1998, as compared with 70 percent and 68 percent during 1997 and 1996, respectively. These supplies were generally purchased at prices significantly below those of long-term sources of supply.

During 1998, SoCalGas delivered 962 bcf of natural gas through its system. Approximately 66 percent of these deliveries were customer-owned natural gas for which SoCalGas provided transportation services. The balance of natural gas deliveries was gas purchased by SoCalGas and resold to customers. SoCalGas estimates that sufficient natural gas supplies will be available to meet the requirements of its customers for the next several years.

Customers

For regulatory purposes, customers are separated into core and noncore customers. Core customers are primarily residential and small commercial and industrial customers, without alternative fuel capability. There are approximately 4.8 million core customers (4.6 million residential and 200,000 small commercial and industrial). Noncore customers consist primarily of utility electric generation (UEG), wholesale, and large commercial and industrial customers, and total approximately 1,600.

Most core customers purchase natural gas directly from SoCalGas.

Core aggregate transportation customers are permitted to aggregate their natural gas requirement and, up to a CPUC-imposed limit of 10 percent of SoCalGas' core market, to purchase natural gas directly from brokers or producers. SoCalGas continues to be obligated to purchase reliable supplies of natural gas to serve the requirements of its core customers. However, the only natural gas supplies that SoCalGas may offer for sale to noncore customers are the same supplies that it purchases for its core customers.

Noncore customers have the option of purchasing natural gas either from SoCalGas or from other sources, such as brokers or producers, for delivery through SoCalGas' transmission and distribution system. Most noncore customers procure their own natural gas supply.

For 1998, approximately 87 percent of the CPUC-authorized natural gas margin was allocated to the core customers, with 13 percent allocated to the noncore customers.

Although revenue from transportation throughput is less than for natural gas sales, SoCalGas generally earns the same margin whether SoCalGas buys the gas and sells it to the customer or transports natural gas already owned by the customer.

SoCalGas also provides natural gas storage services for noncore and off-system customers on a bid and negotiated contract basis. The storage service program provides opportunities for customers to store natural gas on an "as available" basis, usually during the summer to reduce winter purchases when natural gas costs are generally higher. As of December 31, 1998, SoCalGas stored approximately 26 bcf of customer-owned gas.

Demand for Natural Gas

Natural gas is a principal energy source for residential, commercial, industrial and UEG customers. Natural gas competes with electricity for residential and commercial cooking, water heating, space heating and clothes drying, and with other fuels for large industrial, commercial and UEG uses. Growth in the natural gas markets is largely dependent upon the health and expansion of the southern California economy. SoCalGas added approximately 46,000 new meters in 1998. This represents a growth rate of approximately 0.9 percent. SoCalGas expects its growth for 1999 will continue at about the 1998 level.

During 1998, 97 percent of residential energy customers in SoCalGas' service area used natural gas for water heating, 94 percent for space heating, 78 percent for cooking and 72 percent for clothes drying.

Demand for natural gas by noncore customers is very sensitive to the price of alternative competitive fuels. Although the number of noncore customers in 1998 was only 1,600, it accounted for 13 percent of the authorized natural gas revenues and 62 percent of total natural gas volumes. External factors such as weather, electric deregulation, the increased use of hydro-electric power, competing pipeline bypass and general economic conditions can result in significant shifts in this market. Natural gas demand for big UEG customers is also greatly affected by the price and availability of electric power generated in other areas and purchased by SoCalGas' UEG customers. Natural gas demand in 1998 for UEG customer use decreased as a result of decreased demand for electricity. UEG customer demand increased in 1997 as a result of higher demand for electricity and less availability of hydro-electricity.

As a result of electric industry restructuring, natural gas demand for electric generation within southern California competes with electric power generated throughout the western United States. Effective March 31, 1998, California consumers were given the option of selecting their electric energy provider from a variety of local and out-of-state producers. Although the electric industry restructuring has no direct impact on SoCalGas' natural gas operations, future volumes of natural gas transported for UEG customers may be adversely affected to the extent that regulatory changes divert electricity from its service area.

Other

Additional information concerning customer demand and other aspects of natural gas operations is provided under "Management's Discussion and Analysis of Financial Condition and Results of

Operations" and in Notes 12 and 13 of the "Notes to Consolidated Financial Statements" herein.

RATES AND REGULATION

SoCalGas is regulated by the CPUC, which consists of five commissioners appointed by the Governor of California for staggered six-year terms. Two of the five commissioner positions are currently vacant. It is the responsibility of the CPUC to determine that utilities operate within the best interests of their customers. The regulatory structure is complex and has a substantial impact on SoCalGas' profitability. The natural gas industry is currently undergoing transitions to competition (see below).

Natural Gas Industry Restructuring

The natural gas industry experienced an initial phase of restructuring during the 1980s by deregulating natural gas sales to noncore customers. In January 1998, the CPUC released a staff report initiating a project to assess the current market and regulatory framework for California's natural gas industry. The general goals of the plan are to consider reforms to the current regulatory framework emphasizing market-oriented policies benefiting California natural gas customers. Additional information on natural gas industry restructuring is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 13 of the "Notes to Consolidated Financial Statements" herein.

Balancing Accounts

In general, earnings fluctuations from changes in the costs of natural gas and consumption levels for the majority of natural gas are eliminated by balancing accounts authorized by the CPUC. Additional information on balancing accounts is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 2 of the "Notes to Consolidated Financial Statements" herein.

Performance-Based Regulation (PBR)

To promote efficient operations and improved productivity and to move away from reasonableness reviews and disallowances, the CPUC has been directing utilities to use PBR. PBR has replaced the general rate case and certain other regulatory proceedings for SoCalGas. Under PBR, regulators require future income potential to be tied to achieving or exceeding specific performance and productivity measures, as well as cost reductions, rather than relying solely on expanding utility rate base in a market where a utility already has a highly developed infrastructure. Additional information on PBR is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 13 of the "Notes to Consolidated Financial Statements" herein.

Biennial Cost Allocation Proceeding (BCAP)

Rates to recover the changes in natural gas fuel costs and changes in the cost of natural gas transportation services are determined in the BCAP. The BCAP adjusts rates to reflect variances in core customer demand from estimates previously used in establishing core customer rates. The mechanism substantially eliminates the effect on core income of variances in core market demand and natural gas costs subject to the limitations of the Gas Cost Incentive Mechanism (GCIM) discussed below. The BCAP will continue under PBR. Additional information on the BCAP is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 13 of the "Notes to Consolidated Financial Statements" herein.

Gas Cost Incentive Mechanism (GCIM)

The GCIM is a process SoCalGas uses to evaluate its natural gas purchases, substantially replacing the previous process of reasonableness reviews. Additional information on the GCIM is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 13 of the "Notes to Consolidated Financial Statements" herein.

Affiliate Transactions

In December 1997, the CPUC adopted rules establishing uniform standards of conduct governing the manner in which California investor-owned utilities conduct business with their affiliates. The objective of these rules is to ensure that the utilities' energy affiliates do not gain an unfair advantage over other competitors in the marketplace and that utility customers do not subsidize affiliate activities. Additional information on affiliate transactions is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 13 of the "Notes to Consolidated Financial Statements" herein.

Cost of Capital
Under PBR, annual Cost of Capital proceedings have been replaced by an automatic adjustment mechanism if changes in certain indices exceed established tolerances. For 1999, SoCalGas is authorized to earn a rate of return on rate base of 9.49 percent and a rate of return on common equity of 11.6 percent, the same as in 1998, unless interest-rate changes are large enough to trigger an automatic adjustment. Additional information on the utilities' cost of capital is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 13 of the "Notes to Consolidated Financial Statements" herein.

ENVIRONMENTAL MATTERS

Discussions about environmental issues, including hazardous substances, are included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein. The following should be read in conjunction with those discussions.

Hazardous Substances
The utility lawfully disposed of wastes at facilities owned and operated by other entities. Operations at these facilities may result in actual or threatened risks to the environment or public health. Under California law, redevelopment agencies are authorized to require landowners to cleanup property within their jurisdiction or, where the landowner or operator of such a facility fails to complete any corrective action required, applicable environmental laws may impose an obligation to undertake corrective actions on the utilities and others who disposed of hazardous wastes at the facility.

SoCalGas has been named as a potential responsible party (PRP) for two landfill sites and two industrial waste disposal sites, as described below.

The Casmalia former waste disposal site operated as a Class I waste disposal site which was composed of 6 landfills, 58 surface impoundments, 11 disposal wells, 7 disposal trenches, 2 treatment systems and one former pre-Resource Conservation and Recovery Act drum burial area. The utility has estimated the costs of remediation at Casmalia to be $1.1 million. In 1998, SoCalGas completed work efforts of $225,000. Remedial actions and negotiations with other PRPs and the United States Environmental Protection Agency (EPA) have been continuing since March 1993. SoCalGas is currently negotiating a final remedy with the EPA for Operating Industries, Inc. (OII), a former landfill for both household and industrial wastes. The total costs for remediation of OII are estimated at $3 million, of which $.06 million was completed during 1998. Remedial actions and negotiations have been in progress since June 1986.

In the early 1990s, SoCalGas was notified of hazards at two former industrial waste treatment facilities, Industrial Waste Processing (Industrial) and Cal Compact (Compact), where SoCalGas had disposed of wastes. A feasibility study and remedial investigation have been submitted and accepted by the EPA for Industrial. The total cost estimate for remediation of Industrial is $300,000, of which $4,000 of remedial action was completed in 1998. The nature and extent for remediation of the Compact site indicates an estimated cost of $120,000. During 1998, the utility completed remedial efforts of this site at a cost of $50,000 and is involved in ongoing negotiations with the California Department of Toxic Substances Control.

At December 31, 1998, the utility's estimated remaining investigation and remediation liability related to hazardous waste sites not detailed above was $68 million, of which 90 percent is authorized to be recovered through the Hazardous Waste Collaborative mechanism. SoCalGas believes that any costs not ultimately recovered through rates, insurance or other means, upon giving effect to previously established liabilities, will not have a material adverse effect on the Company's consolidated results of operations or financial position.

Estimated liabilities for environmental remediation are recorded when amounts are probable and estimable. Amounts authorized to be recovered in rates under the Hazardous Waste Collaborative mechanism are recorded as a regulatory asset. Possible recoveries of environmental remediation liabilities from third parties are not deducted from the liability.

OTHER

Year 2000
A discussion of the Company's plans to prepare its computer systems and applications for the year 2000 and beyond is included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein.

Research, Development and Demonstration (RD&D)
The SoCalGas RD&D portfolio is focused in five major areas: Operations, Utilization Systems, Power Generation, Public Interest and Transportation. Each of these activities provides benefits to customers and society by providing more cost-effective, efficient natural gas equipment with lower emissions, increased safety and reduced environmental mitigation and other utility operating costs. The CPUC has authorized SoCalGas to recover its operating cost associated with RD&D. An annual average of $7.7 million has been spent for the last three years.

Employees of Registrant
As of December 31, 1998, SoCalGas had 6,148 employees, compared to 6,615 at December 31, 1997. This decrease is related to synergies resulting from the PE/Enova Business Combination and the shifting of certain functions to Sempra Energy. Subsequent to the business combination, PE employees were shifted to Sempra Energy and operating units, and PE now has no direct employees.

Field, technical and most clerical employees of SoCalGas are represented by the Utility Workers' Union of America or the International Chemical Workers' Council. The collective bargaining agreement on wages, hours and working conditions remains in effect through March 31, 2000.

Foreign Operations
A discussion of PE's foreign operations is included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 3 of the "Notes to Consolidated Financial Statements" herein.

ITEM 2. PROPERTIES

Natural Gas Properties
At December 31, 1998, SoCalGas owned 2,857 miles of transmission and storage pipeline, 44,097 miles of distribution pipeline and 43,825 miles of service piping. It also owned 10 transmission compressor stations and 6 underground storage reservoirs (with a combined working storage capacity of approximately 116 Bcf).

Other Properties
Southern California Gas Tower, a wholly owned subsidiary of SoCalGas, has a 15-percent limited partnership interest in a 52-story office building in downtown Los Angeles. SoCalGas leases approximately half of the building through the year 2011. The lease has six separate five-year renewal options.

PE and its subsidiaries own or lease other offices, operating and maintenance centers, shops, service facilities, and certain equipment necessary in the conduct of business.

ITEM 3. LEGAL PROCEEDINGS

Except for the matters referred to in the financial statements in Item 8 or referred to elsewhere in this Annual Report, neither the Company nor any of its affiliates is a party to, nor is its property the subject of, any material pending legal proceedings other than routine litigation incidental to its businesses.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None

ITEM 4. EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age*	Positions
Richard D. Farman	63	Chairman and Chief Executive Officer
Stephen L. Baum	57	President and Chief Operating

		Officer
John R. Light	57	Executive Vice President and General Counsel
Neal E. Schmale	51	Executive Vice President and Chief Financial Officer
Frank H. Ault	54	Vice President and Controller
Charles A. McMonagle	48	Vice President and Treasurer
Thomas C. Sanger	55	Corporate Secretary

* As of December 31, 1998.

Each Executive Officer has been an officer of Sempra Energy or one of its subsidiaries for more than five years, with the exception of Mssrs. Light and Schmale. Prior to joining the Company in 1998, Mr. Light was a partner in the law firm of Latham & Watkins. Prior to joining the Company in 1997, Mr. Schmale was Chief Financial Officer of Unocal Corporation.

PART II

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

As a result of the formation of Sempra Energy (see Note 1 of "Notes to Consolidated Financial Statements" herein), all of the issued and outstanding common stock of PE is owned by Sempra Energy. The information required by Item 5 concerning dividends declared is included in the "Statements of Consolidated Changes in Shareholders' Equity" set forth in Item 8 of this Annual Report herein.

Dividend Restrictions
At December 31, 1998, $103 million of PE's retained earnings was available for future dividends, due to the CPUC's regulation of SoCalGas' capital structure.

ITEM 6. SELECTED FINANCIAL DATA

(Dollars in millions)

	At December 31, or for the years then ended				
	1998	1997	1996	1995	1994
Income Statement Data:					
Revenues and Other Income	$2,472	$2,777	$2,588	$2,377	$2,702
Operating Income	$ 341	$ 438	$ 451	$ 422	$ 439
Earnings Applicable to Common Shares	$ 143	$ 180	$ 196	$ 175	$ 160
Balance Sheet Data:					
Total Assets	$4,598	$4,977	$5,186	$5,259	$5,445
Long-Term Debt	$ 985	$1,118	$1,225	$1,371	$1,550
Short-Term Debt (a)	$ 249	$ 502	$ 411	$ 334	$ 406
Shareholders' Equity	$1,547	$1,469	$1,440	$1,483	$1,428

(a) Includes bank and other notes payable, commercial paper borrowings and long-term debt due within one year.

Since Pacific Enterprises is a wholly owned subsidiary of Sempra Energy, per share data has been omitted.

This data should be read in conjunction with the Consolidated Financial Statements and notes to Consolidated Financial Statements contained herein.

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 1996 through 1998, and is intended to provide additional information about the capital resources, liquidity and financial performance of Pacific Enterprises (PE or the Company). This section also focuses on the major factors expected to influence future operating results and discusses investment and financing plans. It should be read in conjunction with the Consolidated Financial Statements.

PE is a California-based utility holding company whose principal subsidiary is Southern California Gas Company (SoCalGas), the nation's largest natural gas distribution utility, serving 4.8 million meters throughout most of southern California and part of central California. SoCalGas delivers natural gas and related services to residential and small commercial and industrial customers and stores and transports natural gas for utility electric generation and wholesale customers. The company, jointly with Enova Corporation (Enova), the parent corporation of San Diego Gas & Electric, owns and operates Sempra Energy Solutions (Solutions) and Sempra Energy Trading. Sempra Energy Solutions is engaged in the buying and selling of natural gas for large users, integrated energy management services targeted at large governmental and commercial facilities, and consumer-market products and services. Sempra Energy Trading is engaged in the wholesale trading and marketing of natural gas, power and petroleum. Through other subsidiaries the Company owns and operates interstate and offshore natural gas pipelines and centralized heating and cooling for large building complexes, and is involved in domestic and international energy-utility operations, and other energy-related products and services.

In January 1998, the Company and Enova jointly acquired CES/Way International, Inc., through the jointly owned Solutions. CES/Way provides energy-efficiency services including energy audits, engineering design, project management, construction, financing and contract maintenance.

Business Combination

Sempra Energy was formed to serve as a holding company for the Company and Enova in connection with a business combination that became effective on June 26, 1998 (the PE/Enova Business Combination). Expenses incurred by the Company in connection with the business combination are $35 million, aftertax, and $9 million, aftertax, for the years ended December 31, 1998 and 1997, respectively. These costs consist primarily of employee-related costs, and investment banking, legal, regulatory and consulting fees.

In connection with the PE/Enova Business Combination, the holders of common stock of the Company and Enova each became holders of Sempra Energy common stock. PE's common shareholders received 1.5038 shares of Sempra Energy's common stock for each share of PE common stock, and Enova's common shareholders received one share of Sempra Energy's common stock for each share of Enova common stock. The preferred stock of the Company and of SoCalGas remained outstanding. The combination was approved by the shareholders of both companies on March 11, 1997 and was a tax-free transaction.

In conjunction with the PE/Enova Business Combination, on September 30, 1998 PE's ownership interests in certain non-utility subsidiaries were dividended to Sempra Energy at book value.

Capital Resources and Liquidity

The Company's working capital requirements are met through cash from operations and the issuance of short-term and long-term debt. Cash requirements primarily include capital investments in the utility operations. Nonutility cash requirements include investments in Sempra Energy Solutions, Sempra Energy Trading, CES/Way International, and other domestic and international ventures.

Additional information on sources and uses of cash during the last three years is summarized in the following condensed statement of cash flows:

Sources and (Uses) of Cash

(Dollars in millions)	Year Ended December 31, 1998	1997	1996
Operating activities	$ 598	$ 350	$ 608
Investing activities:			
Capital expenditures	(150)	(187)	(204)
Acquisitions of companies	(45)	(138)	(62)
Other	6	62	(20)
Total investing activities	(189)	(263)	(286)
Financing activities:			
Long-term debt - net	(75)	(125)	(97)

Short-term debt - net	(311)	92	29
Issuance of common stock	27	17	8
Repurchase of common stock	--	(48)	(24)
Redemption of preferred stock	(75)	--	(210)
Dividends on common and preferred stock	(101)	(126)	(123)
Total financing activities	(535)	(190)	(417)
Decrease in cash and cash equivalents	$ (126)	$ (103)	$ (95)

Cash Flows from Operating Activities
The increase in cash flows from operating activities in 1998 was primarily due to lower working capital requirements for natural gas operations in 1998. This was caused by higher throughput compared to 1997 combined with natural gas costs that were lower than amounts being collected in rates, resulting in overcollected regulatory balancing accounts at year-end 1998. This increase was partially offset by expenses incurred in connection with the PE/Enova Business Combination.

The decrease in cash flows from operating activities in 1997 was primarily due to greater working capital requirements for natural gas operations in 1997. This was caused by natural gas costs' being higher than amounts collected in rates, resulting in undercollected regulatory balancing accounts at year-end 1997.

Cash Flows from Investing Activities
Cash flows from investing activities primarily represent capital expenditures at SoCalGas and investments in new businesses.

Capital expenditures were $37 million lower in 1998 primarily due to the shifting of certain functions to Sempra Energy following the PE/Enova Business Combination.

Capital expenditures were $17 million lower in 1997 than in 1996 due to lower spending at SoCalGas primarily related to the customer information system's being completed in 1996, and other nonrecurring computer system expenditures in 1996. The decrease was partially offset by higher capital expenditures related to the purchase of a data processing facility and a plant expansion at a non-utility subsidiary.

Capital expenditures are estimated to be $180 million in 1999. They will be financed primarily by internally generated funds and will largely represent investment in utility operations.

Investments
In December 1997, the Company and Enova jointly acquired Sempra Energy Trading for $225 million. In July 1998, Sempra Energy Trading purchased Consolidated Natural Gas, a wholesale trading and commercial marketing operation, for $36 million to expand its eastern United States operations.

In May 1997, Sempra Energy Solutions together with Conectiv Thermal Systems, Inc., formed two joint ventures to provide integrated energy management services to commercial and industrial customers. Specific projects of these joint ventures are described in Note 3 of the notes to Consolidated Financial Statements.

As noted above, Sempra Energy Solutions acquired CES/Way International, Inc. (CES/Way) in January 1998.

In March 1998, the Company increased its combined investment in two Argentine natural gas utility holding companies from 12.5 percent to 21.5 percent by purchasing an additional interest for $40 million.

Fluctuations in the Company's level of investments in the next few years will depend primarily on the activities of its subsidiaries other than SoCalGas.

Cash Flows from Financing Activities

Long-Term Debt
In 1998, cash was used for the repayment of $100 million of first mortgage bonds and $47 million of Swiss Franc bonds partially offset by the issuance of $75 million of Medium-Term Notes. Short-term debt repayments included repayment of $94 million of debt issued to finance the Comprehensive Settlement (see Note 13 of the notes to Consolidated Financial Statements).

In 1997 cash was used for the repayment of $96 million of debt issued to finance the Comprehensive Settlement and repayment of $125 million of first-mortgage bonds. This was partially offset by the issuance of $120 million in Medium-Term Notes and short-term borrowings used to finance working capital requirements at SoCalGas.

Stock Purchases and Redemption
The Company repurchased common stock of $48 million and $24 million

in 1997 and 1996, respectively. The Company did not repurchase common stock in 1998. The repurchase program of the Company was suspended as a result of the PE/Enova Business Combination.

On February 2, 1998, SoCalGas redeemed all outstanding shares of its 7 3/4% Series Preferred Stock at a cost of $25.09 per share, or $75.3 million including accrued dividends.

Dividends

Dividends paid on common and preferred stock amounted to $124 million, $126 million and $123 million in 1998, 1997 and 1996, respectively. During 1998, prior to the PE/Enova Business Combination, the Company declared and paid the first through third quarter dividends. The increase in 1997 was primarily due to an increase in the quarterly dividend rate in the second quarter of 1997, partially offset by a reduction in the number of shares outstanding.

The payment of future dividends and the amount thereof is within the discretion of the board of directors.

Capitalization

The debt-to-capitalization ratio was 44 percent at year-end 1998, below the 51 percent ratio in 1997. The decrease was primarily due to the repayment of debt. The debt-to-capitalization ratio was 51 percent at year-end 1997, slightly below the 52 percent ratio in 1996.

Cash and Cash Equivalents

Cash and cash equivalents were $27 million at December 31, 1998. This cash is available for investment in energy-related domestic and international projects, the retirement of debt and other corporate purposes.

The Company anticipates that cash required in 1999 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 Company has multi-year credit agreements that permit term borrowing of up to $700 million, of which $43 million is outstanding at December 31, 1998. For further discussion, see Note 4 of the notes to Consolidated Financial Statements.

Results of Operations

1998 Compared to 1997

Net income for 1998 decreased to $147 million in 1998, compared to net income of $184 million in 1997.

The decrease in net income is primarily due to costs associated with the PE/Enova Business Combination and a lower base margin established at SoCalGas in its Performance Based Regulation (PBR) decision which became effective on August 1, 1997 (see Note 13 of the notes to Consolidated Financial Statements). Expenses related to the business combination were $35 million and $9 million, aftertax, for 1998 and 1997, respectively.

Also contributing to lower net income for 1998 were significant start-up costs at Sempra Energy Solutions (see discussion under "Other Operations" below.)

1997 Compared to 1996

Net income for 1997 decreased to $184 million compared to net income of $203 million in 1996.

The decrease in net income is due primarily to costs associated with the PE/Enova Business Combination, favorable litigation settlements in 1996 and the absence of such in 1997, and start-up costs and increased operating expenses related to energy products and services offered by Sempra Energy Solutions. Partially offsetting the lower consolidated net income in 1997 was an increase in SoCalGas' net income in 1996 (see "SoCalGas Operations" for further discussion).

Utility Operations

To understand the operations and financial results of PE, it is important to understand the ratemaking procedures that SoCalGas follows.

SoCalGas is regulated by the CPUC. It is the responsibility of the CPUC to determine that utilities operate in the best interests of their customers and have the opportunity to earn a reasonable return on investment. In response to utility-industry restructuring, in 1997 SoCalGas received approval from the CPUC for performance-based regulation (PBR).

PBR replaced the general rate case (GRC) procedure and certain other regulatory proceedings through December 31, 2002. Under ratemaking procedures in effect prior to PBR, SoCalGas typically filed a GRC with the CPUC every three years. In a GRC, the CPUC establishes a base margin, which is the amount of revenue to be collected from customers to recover authorized operating expenses (other than the cost natural gas), depreciation, taxes and return on rate base.

Under PBR, regulators allow income potential to be tied to achieving or exceeding specific performance and productivity measures, rather than relying solely on expanding utility rate base in a market where a utility already has a highly developed infrastructure. See additional discussion of PBR in Note 13 of the notes to Consolidated Financial Statements.

The natural gas industry experienced an initial phase of restructuring during the 1980s by deregulating natural gas sales to noncore customers. In January 1998, the CPUC initiated a project to assess the current market and regulatory framework for California's natural gas industry. The general goals of the plan are to consider reforms to the current regulatory framework emphasizing market-oriented policies.

See additional discussion of natural gas industry restructuring in Note 13 of the notes to Consolidated Financial Statements.

1998 Compared to 1997

SoCalGas' net income for 1998 decreased to $159 million, compared to net income of $238 million in 1997. This decrease is primarily due to costs associated with the PE/Enova Business Combination and a lower base margin established at SoCalGas in its PBR decision, which became effective on August 1, 1997 (see Note 13 of the notes to Consolidated Financial Statements). The expense related to the PE/Enova Business Combination was $35 million, aftertax, for 1998.

Utility natural gas revenues decreased 8 percent in 1998 primarily due to the lower gas margin established in SoCalGas' PBR proceeding, a decrease in the average cost of natural gas, and a decrease in sales to utility electric generation customers due to decreased demand for electricity. This decrease was partially offset by increased sales to residential customers due to colder weather in 1998.

The Company's cost of natural gas distributed decreased 16 percent in 1998 largely due to a decrease in the average cost of natural gas purchased, partially offset by an increase in sales volume.

Operating expenses increased 12 percent in 1998 primarily due to costs associated with the PE/Enova Business Combination.

1997 Compared to 1996

SoCalGas' net income for 1997 increased to $238 million, compared to net income of $201 million in 1996. This increase in net income is primarily due to increased throughput to utility electric generation customers and lower operation and maintenance expenses than amounts authorized in rates.

Utility natural gas revenues increased 9 percent in 1997 primarily due to an increase in the average unit cost of natural gas which is recoverable in rates. To a lesser extent, the increase was due to increased throughput to utility electric generation customers due to increased demand for electricity.

Utility cost of natural gas distributed increased 18 percent in 1997, largely due to an increase in the average cost of natural gas purchased and increases in sales volume.

Operating expenses were relatively unchanged in 1997, because of the Company's continued emphasis on reducing costs and reduced costs in 1996 from favorable litigation settlements.

The table below summarizes the components of SoCalGas' volume and revenues by customer class for the years ended December 31, 1998, 1997 and 1996.

Gas Sales, Transportation & Exchange
(Dollars in millions, volumes in billion cubic feet)

	Gas Sales		Transportation & Exchange		Total	
	Throughput	Revenue	Throughput	Revenue	Throughput	Revenue
1998:						
Residential	269	$1,976	3	$ 11	272	$1,987
Commercial and Industrial	81	466	315	261	396	727
Utility Electric Generation			139	66	139	66
Wholesale			155	66	155	66
	350	$2,442	612	$404	962	2,846

Balancing accounts and other						(419)
Total Operating Revenues						$2,427
1997:						
Residential	237	$1,726	3	$ 10	240	$1,736
Commercial and Industrial	80	502	314	255	394	757
Utility Electric Generation			158	76	158	76
Wholesale			138	67	138	67
	317	$2,228	613	$408	930	2,636
Balancing accounts and other						5
Total Operating Revenues						$2,641
1996:						
Residential	233	$1,603	3	$ 10	236	$1,613
Commercial and Industrial	82	473	297	236	379	709
Utility Electric Generation			139	70	139	70
Wholesale			130	70	130	70
	315	$2,076	569	$386	884	2,462
Balancing accounts and other						(40)
Total Operating Revenues						$2,422

Although the revenues from transportation throughput are less than for natural gas sales, the Company generally earns the same margin whether it buys the natural gas and sells it to the customer or transports natural gas already owned by the customer. Throughput, the total natural gas sales and transportation volumes moved through the Company's system, increased in 1998 compared to 1997, primarily because of higher residential sales due to colder weather in 1998. The increase in throughput in 1997 compared to 1996, is primarily due to higher demand for electricity from gas-fired electric generation and less availability of hydro-electricity.

Factors Influencing Future Performance

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

KN Energy Acquisition. On February 22, 1999, Sempra Energy announced a definitive agreement to acquire KN Energy, Inc., subject to approval by the shareholders of both companies and by various regulatory agencies. See Note 15 of the notes to Consolidated Financial Statements for additional information.

Performance Based Regulation. Under PBR, regulators allow future income potential to be tied to achieving or exceeding specific performance and productivity measures, as well as cost reductions, rather than relying solely on expanding utility rate base. See additional discussion in Note 13 of the notes to Consolidated Financial Statements.

Regulatory Accounting Standards. SoCalGas has been accounting for the economic effects of regulation on all of its utility operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Under SFAS No. 71, a regulated entity records a regulatory asset if it is probable that, through the ratemaking process, the utility will recover the asset from customers. Regulatory liabilities represent future reductions in revenues for amounts due to customers. See Notes 2 and 13 of the notes to Consolidated Financial Statements for additional information.

Affiliate Transactions. On December 16, 1997, the CPUC adopted rules establishing uniform standards of conduct governing the manner in which California investor owned utilities (IOUs) conduct business with their affiliates. The objective of these rules, effective January 1, 1998, is to ensure that the utilities' energy affiliates do not gain an unfair advantage over other competitors in the marketplace and that utility customers do not subsidize affiliate activities.

The CPUC excluded utility-to-utility transactions between SoCalGas and SDG&E from the affiliate-transaction rules in its decision approving the PE/Enova Business Combination. As a result, the affiliate-transaction rules will not substantially impact the Company's ability to achieve anticipated synergy savings. See Notes 1 and 13 of the notes to Consolidated Financial Statements for additional information.

Allowed Rate of Return. For 1998, SoCalGas was authorized to earn a rate of return on rate base of 9.49 percent and a rate of return on common equity of 11.6 percent, which is unchanged from 1997. See additional discussion in Note 13 of the notes to Consolidated Financial Statements.

Management Control of Expenses and Investment. In the past, management has been able to control operating expenses and investments within the amounts authorized to be collected in rates.

It is the intent of management to control operating expenses and investments within the amounts authorized to be collected in rates in the PBR decision. SoCalGas intends to make the efficiency improvements, changes in operations and cost reductions necessary to achieve this objective and earn its authorized rate of return. However, in view of the earnings-sharing mechanism and other elements of the PBR, it is more difficult to achieve returns at least at or in excess of authorized returns at levels experienced in past years. See additional discussion of PBR in Note 13 of the notes to Consolidated Financial Statements.

Electric Industry Restructuring. As a result of electric industry restructuring, natural gas generated electricity within SoCalGas' service area competes with electric power generated throughout the western United States.

The State of California in September 1996 enacted a law restructuring California's electric-utility industry (AB 1890). Consumers have the opportunity to choose to continue to purchase their electricity from the local utility under regulated tariffs, to enter into contracts with other energy-service providers (direct access) or to buy their power from the independent Power Exchange (PX) that serves as a wholesale power pool allowing all energy producers to participate competitively. The implementation of electric industry restructuring has no direct impact on the SoCalGas' operations. However, future volumes of natural gas transported for current utility electric generation customers may be adversely affected to the extent these regulatory changes divert electricity generated from the SoCalGas' service territory.

Gas Industry Restructuring. The natural gas industry experienced an initial phase of restructuring during the 1980s by deregulating natural gas sales to noncore customers. On January 21, 1998, the CPUC released a staff report initiating a project to assess the current market and regulatory framework for California's natural gas industry. The general goals of the plan are to consider reforms to the current regulatory framework emphasizing market-oriented policies benefiting California natural gas consumers. On August 25, 1998 California enacted a law prohibiting the CPUC from enacting any natural gas industry-restructuring decision for core customers prior to January 1, 2000. The CPUC continues to study the issue.

Noncore Bypass. SoCalGas' throughput to enhanced oil recovery (EOR) customers in the Kern County area has decreased significantly since 1992 because of the bypass of SoCalGas' system by competing interstate pipelines. The decrease in revenues from EOR customers did not have a material impact on SoCalGas' earnings.

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

Noncore Pricing. To respond to bypass, SoCalGas has received authorization from the CPUC for expedited review of long-term natural gas transportation service contracts with some noncore customers at lower than tariff rates. In addition, the CPUC approved changes in the methodology that eliminates subsidization of core customer rates by noncore customers. This allocation flexibility, together with negotiating authority, has enabled SoCalGas to better compete with new interstate pipelines for noncore customers.

Noncore Throughput. SoCalGas' earnings may be adversely impacted if natural 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 may result from external factors such as weather, electric deregulation, the increased use of hydro-electric power, competing pipeline bypass of SoCalGas' system and a downturn in general economic conditions. In addition, many noncore customers are especially sensitive to the price relationship between natural gas and alternate fuels, as they are capable of readily switching from one fuel to another, subject to air-quality regulations. SoCalGas is at risk for the lost revenue.

Through July 31, 1999, any favorable earnings effect of higher revenues resulting from higher throughput to noncore customers has been limited as a result of the Comprehensive Settlement discussed in Note 13 of the notes to Consolidated Financial Statements.

Excess Interstate Pipeline Capacity. Existing interstate pipeline capacity into California exceeds current demand by over one billion cubic feet (Bcf) per day. This situation has reduced the market value of the capacity well below the Federal Energy Regulatory Commission's (FERC) tariffs. SoCalGas has exercised its step-down option on both the El Paso and Transwestern systems, thereby reducing its firm interstate capacity obligation from 2.25 Bcf per day to 1.45 Bcf per day.

FERC-approved settlements have resulted in a reduction in the costs that SoCalGas may have been required to pay for the capacity released back to El Paso and Transwestern that cannot be remarketed. Of the 1.45 Bcf per day of capacity, SoCalGas' core customers use 1.05 Bcf per day at the full FERC tariff rate. The remaining 0.4 Bcf per day of capacity is marketed at significant discounts. Under existing California regulation, unsubscribed capacity costs associated with the remaining 0.4 Bcf per day are recoverable in customer rates. While including 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 or sold.

Environmental Matters

The Company's operations are conducted in accordance with applicable federal, state and local environmental laws and regulations governing such things as hazardous wastes, air and water quality, and the protection of wildlife.

These costs of compliance are normally recovered in customer rates. It is anticipated that the environmental costs associated with the natural gas operations will continue to be recoverable in rates.

Capital expenditures to comply with environmental laws and regulations were $1 million in 1998 and 1997 and $3 million in 1996.

In 1994, the CPUC approved the Hazardous Waste Collaborative Mechanism, which allows utilities to recover cleanup costs of hazardous waste contamination at sites where the utility may have responsibility or liability under the law to conduct or participate in any required cleanup. In general, utilities are allowed to recover 90 percent of their cleanup costs and any related costs of litigation with responsible parties.

Estimated liabilities for environmental remediation are recorded when amounts are probable and estimable. Amounts authorized to be recovered in rates under the Hazardous Waste Collaborative Mechanism are recorded as a regulatory asset. Possible recoveries of environmental remediation liabilities from third parties are not deducted from the liability.

For further discussion of environmental matters, see Note 12 of the notes to Consolidated Financial Statements.

International Operations

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

Together with Enova International, PEI currently is involved in natural gas transmission and distribution projects in Mexico, Argentina and Uruguay. The Company will be pursuing projects in other parts of Latin America.

In March 1998, PEI increased its existing investment in two Argentine natural gas utility holding companies (Sodigas Pampeana S.A. and Sodigas Sur S.A.) by purchasing an additional 9-percent interest for $40 million. With this purchase, PEI's interest in the holding companies was increased to 21.5 percent. The distribution companies serve 1.2 million customers in central and southern Argentina, respectively, and have a combined sendout of 650 million cubic feet per day.

The net losses for international operations were $2 million, $8 million and $5 million for 1998, 1997 and 1996, respectively.

Other Operations

Sempra Energy Trading Corp. (SET), a leading natural gas and power marketing firm headquartered in Stamford, Connecticut, was jointly acquired by PE and Enova on December 31, 1997. The Company's portion of the net losses was $6 million for the year ended December 31, 1998. The losses were primarily due to the amortization of costs associated with the acquisition. Additional information concerning SET is provided in Note 3 of the notes to Consolidated Financial Statements.

Sempra Energy Solutions (Solutions), formed in 1997 and owned equally by the Company and Enova, incorporates several existing unregulated businesses from each of PE and Enova. It is pursuing a variety of opportunities, including buying and selling natural gas for large users, integrated energy-management services targeted at large governmental and commercial facilities, and consumer-market products and services such as earthquake shutoff valves. CES/Way International, Inc. (CES/Way) acquired by Solutions in January 1998, provides energy-efficiency services including energy audits, engineering design, project management, construction, financing and contract maintenance.

The Company's portion of Solutions' net losses was $21 million and $7 million, aftertax, for 1998 and 1997, respectively. The losses are primarily due to start-up costs.

Other Income, Interest Expense and Income Taxes

Other Income

Other income primarily consists of interest income from short-term investments and regulatory balancing accounts. Other income was $20 million in 1998 compared to $46 million in 1997. The decrease was primarily the result of lower interest income from short-term investments. Other income increased in 1997 to $46 million from $25 million in 1996 primarily due to higher interest from short-term investments during much of 1997.

Equity in losses of unconsolidated joint ventures and partnerships represents the Company's portion of net income or losses from Solutions, SET and PEI.

Interest Expense

Interest expense for 1998 decreased to $67 million from $103 million in 1997. The decrease was primarily due to the repayment of short-term debt in 1998. Interest expense for 1997 increased to $103 million from $97 million in 1996, as a result of a higher long-term debt balance.

Income Taxes

Income tax expense was $127 million, $151 million and $151 million in 1998, 1997 and 1996, respectively. This represents an effective tax rate of 46 percent, 45 percent and 43 percent for the same periods. The increase in the effective tax rate for 1997 was primarily due to fewer deductions from capitalized information-systems costs at SoCalGas.

Derivative Financial Instruments

The Company's policy is to use derivative financial instruments to manage exposure to fluctuations in interest rates, foreign currency exchange rates and energy prices. The Company also uses and trades derivative financial instruments in its energy trading and marketing activities. Transactions involving these financial instruments are with reputable firms and major exchanges. The use of these instruments may expose the Company to market and credit risks. At times, credit risk may be concentrated with certain counterparties, although counterparty nonperformance is not anticipated.

Sempra Energy Trading derives a substantial portion of its revenue from risk management and trading activities in natural gas, petroleum and electricity. Profits are earned as SET acts as a dealer in structuring and executing transactions that assist its customers in managing their energy-price risk. In addition, SET may, on a limited basis, take positions in energy markets based on the expectation of future market conditions. These positions include options, forwards, futures and swaps. See Note 9 of the notes to Consolidated Financial Statements and the following "Market Risk Management Activities" section for additional information regarding SET's use of derivative financial instruments.

The Company's regulated operations use energy derivatives to manage natural gas price risk associated with servicing their load requirements. These instruments include forward contracts, futures, swaps, options and other contracts, with maturities ranging from 30 days to 12 months. In the case of price-risk management activities, the use of derivative financial instruments by the Company's regulated operations is subject to certain limitations imposed by established Company policy and regulatory requirements. See Note 9 of the notes to Consolidated Financial Statements and the "Market Risk Management Activities" section below for further information regarding the use of energy derivatives by the Company's regulated operations.

Market Risk Management Activities

Market risk is the risk of erosion of the Company's cash flows, net income and asset values due to adverse changes in interest and foreign-currency rates, and in prices for energy. Sempra Energy has adopted corporate-wide policies governing its market-risk management and trading activities. An Energy Risk Management Oversight Committee, consisting of senior corporate officers, oversees energy-price risk-management and trading activities to ensure compliance with Sempra Energy's stated energy risk-management and trading policies. In addition, all affiliates have groups that monitor and control energy-price risk-management and trading activities independently from the groups responsible for creating or actively managing these risks.

Along with other tools, the Company uses Value at Risk (VaR) to measure its exposure to market risk. VaR is an estimate of the potential loss on a position or portfolio of positions over a specified holding period, based on normal market conditions and within a given statistical confidence level. The Company has adopted the variance/covariance methodology in its calculation of VaR, and uses a 95 percent confidence level. Holding periods are specific to the types of positions being measured, and are determined based on the size of the position or portfolios, market liquidity, tenor and other factors. Historical volatilities and correlations between instruments and positions are used in the calculation.

The following is a discussion of the Company's primary market-risk exposures as of December 31, 1998, including a discussion of how these exposures are managed.

Interest-Rate Risk

The Company is exposed to fluctuations in interest rates primarily as a result of its fixed-rate long-term debt. The Company has historically funded utility operations through long-term bond issues with fixed interest rates. With the restructuring of the regulatory process, greater flexibility has been permitted within the debt-management process. As a result, recent debt offerings have been selected with short-term maturities to take advantage of yield curves or used a combination of fixed- and floating-rate debt. Interest rate swaps, subject to regulatory constraints, may be used to adjust interest-rate exposures when appropriate, based upon market conditions. However, no such swaps are in place at December 31, 1998.

A portion of the Company's borrowings is denominated in foreign currencies, which expose the Company to market risk associated with exchange-rate movements. The Company's policy generally is to hedge major foreign-currency cash exposures through swap transactions. These contracts are entered into with major international banks, thereby minimizing the risk of credit loss.

The VaR on the Company's fixed-rate long-term debt is estimated at approximately $168 million as of December 31, 1998, assuming a one-year holding period. The VaR attributable to currency exchange rates nets to zero as a result of a currency swap that is directly matched to the Company's Swiss Franc debt obligation, its only non-dollar-denominated debt.

Energy-Price Risk

Market risk related to physical commodities is based upon potential fluctuations in natural gas exchange prices and basis. The Company's market risk is impacted by changes in volatility and liquidity in the markets in which these instruments are traded. The Company's regulated and unregulated affiliates are exposed, in varying degrees, to price risk in the natural gas markets. The Company's policy is to manage this risk within a framework that considers the unique markets,and operating and regulatory environment of each affiliate.

SoCalGas is exposed to market risk on its natural gas purchase, sale and storage activities whenever natural gas prices fall outside the GCIM tolerance band. SoCalGas manages this risk within the parameters of the Company's market risk management and trading framework. As of December 31, 1998, the total VaR of SoCalGas' natural gas positions was not material.

Sempra Energy Trading

Sempra Energy Trading derives a substantial portion of its revenue from risk management and trading activities in natural gas, petroleum and electricity. As such, SET is exposed to price volatility in the domestic and international natural gas markets, petroleum and electricity markets. SET conducts these activities within a structured and disciplined risk management and control framework that is based on clearly communicated policies and procedures, position limits, active and ongoing management monitoring and oversight, clearly defined roles and responsibilities, and daily risk measurement and reporting.

Market risk of SET's portfolio is measured using a variety of methods, including VaR. SET computes the VaR of its portfolio based on a three-day holding period. As of December 31, 1998, the diversified VaR of SET's portfolio was $5.3 million.

Credit Risk

Credit risk relates to the risk of loss that would be incurred as a result of nonperformance by counterparties pursuant to the terms of their contractual obligations. The Company avoids concentration of counterparties and maintains credit policies with regard to counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential counterparties' financial condition (including credit rating), collateral requirements under certain circumstances, and the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty.

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

Year 2000 Issues

Most companies are affected by the inability of many automated systems and applications to process the year 2000 and beyond. The Year 2000 issues are the result of computer programs and other automated processes using two digits to identify a year, rather than four digits. Any of the Company's computer programs that include date-sensitive software may recognize a date using "00" as representing the year 1900, instead of the year 2000, or "01" as 1901, etc., which could lead to system malfunctions. The Year 2000 issues impact both Information Technology (IT) systems and also non-IT systems, including systems incorporating "embedded processors." To address this problem, in 1996, both Pacific Enterprises and Enova Corporation established company-wide Year 2000 programs. These programs have now been consolidated into Sempra Energy's overall Year 2000 readiness effort. Sempra Energy has established a central Year 2000 Program Office which reports to the its Chief Information Technology Officer and reports periodically to the audit committee of the Board of Directors.

The Company's State of Readiness

Sempra Energy is identifying all IT and non-IT that might not be Year 2000 ready and categorizing them in the following areas: IT applications, computer hardware and software infrastructure, telecommunications, embedded systems and third parties. Sempra Energy is currently evaluating its exposure in all of these areas. These systems and applications are being tracked and measured through four key phases: inventory, assessment, remediation/testing, and Year 2000 readiness. Those applications and systems which, if not appropriately remediated, may have a significant impact on energy delivery, revenue collection or the safety of personnel, customers or facilities are being assessed and modified/replaced first. The testing effort includes functional testing of Year 2000 dates and validating that changes have not altered existing functionality. Sempra Energy uses an independent, internal-review process to verify that the appropriate testing has occurred.

Inventory and assessment for all Company systems were completed by January 1999 and ongoing inventory and assessment will be performed, as necessary, on any new applications. The project is on schedule and the Company estimates that by June 30, 1999, all critical systems will be suitable for continued use into the year 2000 with no significant operational problems.

Sempra Energy's current schedule for Year 2000 testing, readiness and development of contingency plans is subject to change depending upon the remediation and testing phases of its compliance effort and upon developments that may arise as the Company continues to assess its computer-based systems and operations. In addition, this schedule is dependent upon the efforts of third parties, such as suppliers (including energy producers) and customers. Accordingly, delays by third parties may cause Sempra Energy's schedule to change.

Costs to Address Sempra Energy's Year 2000 Issues

Sempra Energy's budget for the Year 2000 program is $48 million, of which $38 million has been spent. As Sempra Energy continues to assess its systems and as the remediation and testing efforts progress, cost estimates may change. Sempra Energy's Year 2000 readiness effort is being funded entirely by operating cash flows.

The Risks of Sempra Energy's Year 2000 Issues

Based upon its current assessment and testing of the Year 2000 issue, Sempra Energy believes the reasonably likely worst case Year 2000 scenarios would have the following impacts upon its operations. With respect to Sempra Energy's ability to provide energy to its domestic utility customers, it believes that the reasonably likely worst case scenario is for small, localized interruptions of natural gas or electrical service which are restored in a timeframe that is within normal service levels. With respect to services that are essential to Sempra Energy's operations, such as customer service, business operations, supplies and emergency response capabilities, the scenario is for minor disruptions of essential services with rapid recovery and all essential information and processes ultimately recovered.

To assist in preparing for and mitigating these possible scenarios, Sempra Energy is a member of several industry-wide efforts established to deal with Year 2000 problems affecting embedded systems and equipment used by the nation's natural gas and electric power companies. Under these efforts, participating utilities are working together to assess specific vendors' system problems and to test plans. These assessments will be shared by the industry as a whole to facilitate Year 2000 problem solving.

A portion of this risk is due to the various Year 2000 schedules of critical third-party suppliers and customers. Sempra Energy is in the process of contacting its critical suppliers and customers to survey their Year 2000 remediation programs. While risks related to the lack of Year 2000 readiness by third parties could materially and adversely affect the Company's business, results of operations and financial condition, the Company expects its Year 2000 readiness efforts to reduce significantly the Company's level of uncertainty about the impact of third party Year 2000 issues on both its IT systems and non-IT systems.

Company's Contingency Plans

Sempra Energy's contingency plans for interruptions related to year 2000 are being incorporated in its existing overall emergency preparedness plans. To the extent appropriate, such plans will include emergency backup and recovery procedures, remediation of existing systems parallel with installation of new systems, replacing electronic applications with manual processes, identification of alternate suppliers and increasing inventory levels. Sempra Energy expects these contingency plans to be completed by June 30, 1999. Due to the speculative and uncertain nature of contingency planning, there can be no assurances that such plans actually will be sufficient to reduce the risk of material impacts on Sempra Energy's operations due to Year 2000 issues.

New Accounting Standards

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 "Reporting on the Costs of Start-up Activities". This statement is effective for 1999, but is not expected to have a significant effect on the Company's Consolidated Financial Statements.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." This statement, which is effective January 1, 2000, requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change unless the derivative qualifies as an effective hedge that offsets certain exposures. The effect of this standard on the Company's Consolidated Financial Statements has not yet been determined.

Information Regarding Forward-Looking Statements

This report includes forward-looking statements within the definition of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "estimates," "believes," "expects," "anticipates," "plans" and "intends," variations of such words, and similar expressions, are intended to identify forward-looking statements that involve risks and uncertainties which could cause actual results to differ materially from those anticipated.

These statements are necessarily based upon various assumptions involving judgments with respect to the future including, among others, local, regional, national and international economic, competitive, political and regulatory conditions and developments, technological developments, capital market conditions, inflation rates, interest rates, energy markets, weather conditions, business and regulatory or legal decisions, the pace of deregulation of retail natural gas and electricity industries, the timing and success of business development efforts, 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 are reasonable, there can be no assurance that they will approximate actual experience, or that the expectations will be realized. Readers are urged to carefully review and consider the risks, uncertainties and other factors which affect the Company's business described in this annual report and other reports filed by the Company from time to time with the Securities and Exchange Commission.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 7A is set forth under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Management Activities."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Pacific Enterprises:

We have audited the accompanying consolidated balance sheets of Pacific Enterprises and subsidiaries as of December 31, 1998 and 1997, and the related statements of consolidated income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Pacific Enterprises and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
January 27, 1999, except for Note 15 as to which the date is February 22, 1999

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
In millions of dollars

For the years ended December 31	1998	1997	1996
Revenues			
Operating revenues	$2,472	$2,738	$2,563
Loss of unconsolidated joint ventures and partnerships	(20)	(7)	--
Other Income	20	46	25
Total	2,472	2,777	2,588

Expenses			
Cost of natural gas distributed	840	1,059	866
Operating expenses	930	918	910
Depreciation and amortization	259	256	255
Franchise fees and other taxes	100	99	98
Preferred dividends of subsidiaries	2	7	8
Total	2,131	2,339	2,137
Income Before Interest and Income Taxes	341	438	451
Interest	67	103	97
Income Before Income Taxes	274	335	354
Income Taxes	127	151	151
Net Income	147	184	203
Preferred Dividend Requirements	4	4	5
Preferred Stock Original Issue Discount	--	--	2
Earnings Applicable to Common Shares	$ 143	$ 180	$ 196

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
In millions of dollars

Balance at December 31	1998	1997
ASSETS		
Current assets		
Cash and cash equivalents	$ 27	$ 153
Accounts and notes receivable - trade (less allowance for doubtful receivables of $18 in 1998 and $19 in 1997)	444	480
Accounts and notes receivable - other	137	50
Income taxes receivable	22	3
Regulatory balancing accounts undercollected - net	--	355
Deferred income taxes	130	--
Natural Gas in storage	49	25
Materials and supplies	16	16
Prepaid expenses	19	21
Total current assets	844	1,103
Property, plant and equipment	6,152	6,097
Less accumulated depreciation and amortization	3,149	2,943
Total property, plant and equipment - net	3,003	3,154
Investments and other assets:		
Regulatory assets	351	394
Other receivables	130	62
Investments	209	191
Other assets	61	73
Total investments and other assets	751	720
Total	$4,598	$4,977

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
In millions of dollars

Balance at December 31	1998	1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt	$ 43	$ 354
Current portion of long-term debt	206	148
Accounts payable - trade	163	133
Accounts payable - other	245	304
Regulatory balancing accounts overcollected - net	129	--
Interest accrued	47	52
Deferred income taxes	--	7
Other taxes payable	32	30
Other	149	87
Total current liabilities	1,014	1,115
Long-term debt	985	988
Debt of Employee Stock Ownership Plan	--	130
Total long-term debt	985	1,118
Deferred credits and other liabilities:		
Customer advances for construction	31	34
Post-retirement benefits other than pensions	210	217
Deferred income taxes - net	220	272
Deferred investment tax credits	58	61
Other deferred credits	346	413
Other long-term liabilities	167	183
Total deferred credits and other liabilities	1,032	1,180
Preferred stock of subsidiary	20	95
Commitments and contingent liabilities (Note 12)		
Shareholders' equity:		
Capital stock:		
Preferred	80	80
Common	1,117	1,064
Total capital stock	1,197	1,144
Retained earnings	395	372
Deferred compensation relating to Employee Stock Ownership Plan	(45)	(47)
Total shareholders' equity	1,547	1,469
Total	$4,598	$4,977

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
In millions of dollars

For the years ended December 31	1998	1997	1996
Cash Flows from Operating Activities:			
Net Income	$ 147	$ 184	$ 203
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	259	256	255
Deferred income taxes	(55)	(35)	33
Loss of unconsolidated joint ventures and partnerships	20	7	--
Other - net	(79)	(22)	13
Changes in working capital components	306	(40)	104
Net cash provided by operating activities	598	350	608
Cash Flows from Investing Activities:			

Expenditures for property, plant and equipment	(150)	(187)	(204)
Acquisition of Sempra Energy Trading	--	(112)	--
Increase in investments	(45)	(26)	(62)
Proceeds from disposition of properties	--	20	--
(Increase) decrease in other receivables, regulatory assets and other assets	6	42	(20)
Net cash used in investing activities	(189)	(263)	(286)
Cash Flows from Financing Activities:			
Common dividends paid	(97)	(122)	(119)
Preferred dividends paid	(4)	(4)	(4)
Payment on long-term debt	(150)	(245)	(172)
Increase (decrease)in short-term debt	(311)	92	29
Issuance of long-term debt	75	120	75
Sale of common stock	27	17	8
Repurchase of common stock	--	(48)	(24)
Redemption of preferred stock of a subsidiary	(75)	--	(100)
Redemption of preferred stock	--	--	(110)
Net cash used in financing activities	(535)	(190)	(417)
Net decrease	(126)	(103)	(95)
Cash and Cash Equivalents, January 1	153	256	351
Cash and Cash Equivalents, December 31	$ 27	$ 153	$ 256

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENT OF CONSOLIDATED CASH FLOWS
In millions of dollars

For the years ended December 31	1998	1997	1996
Changes in Working Capital Components (Excluding cash and cash equivalents, short-term debt and long-term debt due within one year)			
Current Assets:			
Receivables	$ (51)	$ (34)	$ (58)
Income taxes receivable	(19)	55	12
Deferred income taxes	(130)	--	11
Inventories	(24)	5	27
Regulatory balancing accounts	--	25	46
Other	2	2	16
Total	(222)	53	54
Current Liabilities:			
Accounts payable	(29)	(139)	53
Deferred income taxes	(7)	26	--
Other taxes payable	2	2	(18)
Regulatory balancing accounts	484	--	--
Other	78	18	15
Total	528	(93)	50
Net change in other working capital components	$ 306	$ (40)	$ 104
Supplemental Disclosure of Cash Flow Information:			
Income tax payments, net of refunds	$ 263	$ 112	$ 92
Interest payments, net of amount capitalized	$ 72	$ 92	$ 100
Supplemental Schedule of Noncash Activities:			
Dividend of property to Sempra Energy	$ 23	$ --	$ --
Capital contribution from Sempra Energy	$ 26	$ --	$ --
Sale of assets of small generation plants:			
Fair value of the assets sold		$ 77	
Cash received		(20)	
Loss on sale		(6)	

Note receivable	$ 51

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES
STATEMENTS OF CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 1998, 1997, 1996
(Dollars in millions)

	Common Stock	Preferred Stock	Retained Earnings	Deferred Compensation Relating to ESOP	Total Shareholders' Equity
Balance at December 31, 1995	$ 1,111	$ 188	$ 236	$ (52)	$ 1,483
Net income			203		203
Preferred stock dividends declared			(5)		(5)
Common stock dividends declared			(118)		(118)
Sale of common stock	8				8
Repurchase of common stock	(24)				(24)
Redemption of preferred stock		(108)	(2)		(110)
Common stock released from ESOP				3	3
Balance at December 31, 1996	1,095	80	314	(49)	1,440
Net income			184		184
Preferred stock dividends declared			(4)		(4)
Common stock dividends declared			(122)		(122)
Sale of common stock	17				17
Repurchase of common stock	(48)				(48)
Common stock released from ESOP				2	2
Balance at December 31, 1997	1,064	80	372	(47)	1,469
Net income			147		147
Preferred stock dividends declared			(4)		(4)
Common stock dividends declared			(120)		(120)
Capital contribution	26				26
Sale of common stock	27				27
Common stock released from ESOP				2	2
Balance at December 31, 1998	$ 1,117	$ 80	$ 395	$ (45)	$ 1,547

See notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BUSINESS COMBINATION

On June 26, 1998, Enova Corporation (Enova) and Pacific Enterprises (PE or the Company) combined into a new company named Sempra Energy. As a result of the combination, (i) each outstanding share of common stock of Enova was converted into one share of common stock of Sempra Energy, (ii) each outstanding share of common stock of PE was converted into 1.5038 shares of common stock of Sempra Energy and (iii) the preferred stock and preference stock of Enova's principal subsidiary, San Diego Gas & Electric Company (SDG&E); PE; and PE's principal subsidiary, Southern California Gas Company (SoCalGas) remained outstanding. The combination was approved by the shareholders of both companies on March 11, 1997 and was a tax-free transaction. The Consolidated Financial Statements of Sempra Energy and its subsidiaries give effect to the business combination using the pooling-of-interests method.

As required by the March 1998 decision of the California Public Utilities Commission (CPUC) approving the business combination, SDG&E has entered into agreements to sell its fossil-fueled generation units. The sales are subject to regulatory approvals and are expected to close during its first half of 1999.

In addition SoCalGas has sold its options to purchase the California portions of the Kern River and Mojave Pipeline natural gas transmission facilities. The Federal Energy Regulatory Commission's (FERC) approval of the combination includes conditions that the combined company will not unfairly use any potential market power regarding natural gas transportation to fossil-fueled generation plants. The FERC also specifically noted that the divestiture of SDG&E's fossil-fueled generation plants would eliminate any concerns about vertical market power arising from transactions between SDG&E and SoCalGas.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Property, Plant and Equipment

This primarily represents the buildings, equipment and other facilities used by SoCalGas to provide natural gas service. The cost of utility plant includes labor, materials, contract services and related items, and an allowance for funds used during construction. The cost of retired depreciable utility plant, plus removal costs minus salvage value, is charged to accumulated depreciation. Depreciation expense is based on the straight-line method over the useful lives of the assets or a shorter period prescribed by the CPUC. The provisions for depreciation as a percentage of average depreciable utility plant in 1998, 1997 and 1996, respectively are: 4.36, 4.35 and 4.39.

Inventories

Materials and supplies are generally valued at the lower of average cost or market; natural gas in storage is valued by the last-in first-out method.

Trading Instruments

Sempra Energy Trading (SET), a leading natural gas and power marketing firm headquartered in Stamford, Connecticut, was jointly acquired by PE and Enova on December 31, 1997. SET's trading assets and trading liabilities are recorded on a trade-date basis at fair value and include option premiums paid and received, and unrealized gains and losses from exchange-traded futures and options, over the counter (OTC) swaps, forwards, and options. Unrealized gains and losses on OTC transactions reflect amounts which would be received from or paid to a third party upon settlement of the contracts. Unrealized gains and losses on OTC transactions are reported separately as assets and liabilities unless a legal right of setoff exists under a master netting arrangement enforceable by law. Revenues are recognized on a trade-date basis and include realized gains and losses, and the net change in unrealized gains and losses.

Futures and exchange-traded option transactions are recorded as contractual commitments on a trade-date basis and are carried at fair value based on closing exchange quotations. Commodity swaps and forward transactions are accounted for as contractual commitments on a trade-date basis and are carried at fair value derived from dealer quotations and underlying commodity-exchange quotations. OTC options are carried at fair value based on the use of valuation models that utilize, among other things, current interest, commodity and volatility rates, as applicable. For long-dated forward transactions, where there are no dealer or exchange quotations, fair values are derived using internally developed valuation methodologies based on available market information. Where market rates are not quoted, current interest, commodity and volatility rates are estimated by reference to current market levels. Given the nature, size and timing of transactions, estimated values may differ from realized values. Changes in the fair value are recorded currently in income.

Effects of Regulation

SoCalGas accounting policies conform with generally accepted accounting principles for regulated enterprises and reflect the policies of the CPUC and the FERC. The Company's interstate natural gas transmission subsidiary follows accounting policies authorized by the FERC.

SoCalGas prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," under which a regulated utility may record a regulatory asset if it is probable that, through the ratemaking process, the utility will recover that asset from customers.

Regulatory liabilities represent future reductions in rates for amounts due to customers. In addition, SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," affects utility plant and regulatory assets such that a loss must be recognized whenever a regulator excludes all or part of an asset's cost from rate base. Additional information concerning regulatory assets and liabilities is described below in "Revenues and Regulatory Balancing Accounts" and in Note 13.

Revenues and Regulatory Balancing Accounts

Revenues from utility customers consist of deliveries to customers and the changes in regulatory balancing accounts. Earnings fluctuations from changes in the costs of natural gas and consumption levels for the majority of natural gas are eliminated by balancing accounts authorized by the CPUC.

Regulatory Assets

Regulatory assets include unrecovered premium on early retirement of debt, post-retirement benefit costs, deferred income taxes recoverable in rates and other regulatory-related expenditures that the utility expects to recover in future rates. See Note 13 for additional information.

Comprehensive Income

In 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." This statement requires reporting of comprehensive income and its components (revenues, expenses, gains and losses) in any complete presentation of general-purpose financial statements. Comprehensive income describes all changes, except those resulting from investments by owners and distributions to owners, in the equity of a business enterprise from transactions and other events including, as applicable, foreign-currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. Comprehensive income was equal to net income for the years ended December 31, 1998, 1997 and 1996.

Quasi-Reorganization

In 1993, PE completed a strategic plan to refocus on its natural gas utility and related businesses. The strategy included the divestiture of its merchandising operations and all of its oil and natural gas exploration and production business. In connection with the divestitures, PE effected a quasi-reorganization for financial reporting purposes, effective December 31, 1992. Certain of the liabilities established in connection with discontinued operations and the quasi-reorganization will be resolved in future years. Management believes the provisions previously established for these matters are adequate at December 31, 1998.

Use of Estimates in the Preparation of the Financial Statements

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

Statements of Consolidated Cash Flows

Cash equivalents are highly liquid investments with original maturities of three months or less, or investments that are readily convertible to cash.

New Accounting Standard

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 "Reporting on the Costs of Start-up Activities". This statement is effective for 1999, but is not expected to have a significant effect on the Company's Consolidated Financial Statements.

In June 1998, the Financial Accounting Standards Board issued

Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." This statement, which is effective January 1, 2000, requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change unless the derivative qualifies as an effective hedge that offsets certain exposures. The effect of this standard on the Company's consolidated financial statements has not yet been determined.

NOTE 3: ACQUISITIONS AND JOINT VENTURES

Sempra Energy Trading, Sempra Energy Resources, Sempra Energy Utility Ventures and Sempra Energy Solutions are nonregulated subsidiaries of Sempra Energy, each equally owned by PE and Enova.

Sempra Energy Trading

In December 1997, PE and Enova jointly acquired Sempra Energy Trading (SET) for $225 million. SET is a wholesale-energy trading company based in Stamford, Connecticut. It participates in marketing and trading physical and financial energy products, including natural gas, power, crude oil and associated commodities.

In July 1998, SET purchased CNG Energy Services Corporation, a subsidiary of Pittsburgh-based Consolidated Natural Gas Company, for $36 million. The acquisition expands SET's business volume by adding large commodity-trading contracts with local distribution companies, municipalities and major industrial corporations in the eastern United States. See Note 9 for additional information on Sempra Energy Trading.

Sempra Energy Resources

In December 1997, Sempra Energy Resources (SER), in partnership with Reliant Energy Power Generation, formed El Dorado Energy. In April 1998, El Dorado Energy began construction on a 480-megawatt power plant near Boulder City, Nevada. SER invested $2.3 million in 1997 and $19.7 million in 1998 on this $263-million project. In October 1998, El Dorado Energy obtained a $158-million senior secured credit facility, which entails both construction and 15-year term financing for the project. This financing represents 60 percent of the estimated total project costs.

Sempra Energy Utility Ventures

In September 1997, Sempra Energy Utility Ventures (SEUV) formed a joint venture with Bangor Hydro to build, own and operate a $40-million natural gas distribution system in Bangor, Maine. Construction began in June 1998. The new Bangor Gas Company expects to begin deliveries in the fourth quarter of 1999.

In December 1997, SEUV formed Frontier Energy with Frontier Utilities of North Carolina to build and operate a $55-million natural gas distribution system in North Carolina. Gas delivery began in December 1998. Subsequent to December 31, 1998, SEUV purchased Frontier Utilities' interest and acquired 100 percent ownership of the system.

Sempra Energy Solutions

In January 1998, Sempra Energy Solutions completed the acquisition of CES/Way International, a national leader in energy-service performance contracting headquartered in Houston, Texas. CES/Way provides energy-efficiency services including energy audits, engineering design, project management, construction, financing and contract maintenance.

In May 1997, Sempra Energy Solutions entered into an operating joint venture agreement with Conectiv Thermal Systems, Inc. (formerly Atlantic Thermal System, Inc.) to form Atlantic-Pacific Las Vegas, with each receiving a 50 percent interest. Atlantic-Pacific Las Vegas will provide integrated energy-management services to commercial and industrial customers including the construction of facilities. In May 1997, Atlantic-Pacific Las Vegas entered into an energy-services agreement with three other parties to finance, own, operate and maintain an integrated thermal-energy production facility at the site of the future Venetian Casino Resort in Las Vegas. The construction cost incurred to date is $48 million.

A second joint venture agreement was entered into with Conectiv Thermal Systems to form Atlantic-Pacific Glendale in August 1997, with each receiving a 50-percent interest. Atlantic-Pacific Glendale entered into an integrated energy-management services agreement with Dreamworks Animation, LLC, to develop, manage and finance the construction and operation of a central chiller plant, emergency power generators and chilled-water distribution and circulation system at Dreamworks' Glendale facilities. The cost of the project, completed in May 1998, was $7 million.

International Gas Distribution Projects
Pacific Enterprises International (PEI), Sempra Energy International (SEI), and Proxima Gas S.A. de C.V., partners in the Mexican companies Distribuidora de Gas Natural (DGN) de Mexicali and Distribuidora de Gas Natural (DGN) de Chihuahua, are the licensees to build and operate natural gas distribution systems in Mexicali and Chihuahua. DGN - Mexicali will invest up to $25 million during the first five years of the 30-year license period. DGN - Chihuahua will invest up to $50 million over the first five years of operation. DGN - Mexicali and DGN - Chihauhua assumed ownership of natural gas distribution during the third quarter of 1997. PEI owns interests of 30 and 47.5 percent in the Mexicali and Chihuahua projects, respectively. In March 1998, PEI increased its existing investment in two Argentine natural gas utility holding companies (Sodigas Pampeana S.A. and Sodigas Sur S.A.) from 12.5 percent to 21.5 percent by purchasing an additional 9 percent interest for $40 million.

Dividending of Subsidiaries to Sempra Energy
As a result of the PE/Enova Business Combination which was completed in June 1998, certain subsidiaries of PE were dividended to Sempra Energy in September 1998 in order to effectuate the change in the corporate structure.

NOTE 4: SHORT-TERM BORROWINGS

PE has a $300 million multi-year credit agreement. SoCalGas has an additional $400 million multi-year credit agreement. These agreements expire in 2001 and bear interest at various rates based on market rates and the companies' credit ratings. SoCalGas' lines of credit are available to support commercial paper. At December 31, 1998, PE had $43 million of bank loans under the credit agreement outstanding, due and paid in January 1999. SoCalGas' bank line of credit was unused. At December 31, 1997, both bank lines of credit were unused.

At December 31, 1998, there were no commercial-paper obligations outstanding. At December 31, 1997, SoCalGas had $354 million of commercial-paper obligations outstanding, of which approximately $94 million related to the restructuring costs associated with certain long-term natural gas supply contracts under the Comprehensive Settlement. See Note 13 for additional information.

NOTE 5: LONG-TERM DEBT

(Dollars in millions)	December 31, 1998	1997
First-Mortgage Bonds		
5.250% March 1, 1998	$ --	$ 100
6.875% August 15, 2002	100	100
5.750% November 15, 2003	100	100
8.750% October 1, 2021	150	150
7.375% March 1, 2023	100	100
7.500% June 15, 2023	125	125
6.875% November 1, 2025	175	175
	750	850
Other Long-Term Debt		
6.210% Notes, November 7, 1999	75	75
6.375% Notes, October 29, 2001	120	120
8.750% Notes, July 6, 2000	30	30
5.670% Notes, January 15, 2003	75	--
SFr. 100,000,000 5.125% Bonds, February 6, 1998 (foreign currency exposure hedged through currency swap at an interest rate of 9.725%)	--	47
SFr. 15,695,000 6.375% Foreign Interest Payment Securities, May 14, 2006	8	8
Employee Stock Ownership Plan, November 30, 1999	130	130
Other, 8% - 9.5%, 1999-2002	19	21
Total	1,207	1,281
Less:		
Long term debt due within one year	206	148
Unamortized discount on		

long-term debt	16	15
	222	163
Total	$ 985	$1,118

Maturities of long-term debt, including PE's Employees Stock Ownership Plan, are $206 million in 1999, $30 million in 2000, $120 million in 2001, $100 million in 2002 and $175 million in 2003.

First-Mortgage Bonds

First-mortgage bonds are secured by a lien on substantially all utility plant. SoCalGas may issue additional first-mortgage bonds upon compliance with the provisions of its bond indenture, which provides for, among other things, the issuance of an additional $750 million of first-mortgage bonds at December 31, 1998.

Other Long-Term Debt

During 1998, SoCalGas issued $75 million of unsecured debt in medium-term notes used to finance working capital requirements.

Currency Rate Swaps

In May 1996, SoCalGas issued SFr. 15,695,000 of 6.375% Foreign Interest Payment Securities maturing on May 14, 2006. SoCalGas hedged the currency exposure by entering into a swap transaction with a major international bank. As a result, the bond issue, interest payments and other ongoing costs were swapped for fixed annual payments. The Foreign Interest Payment Securities are renewable at ten-year intervals at reset interest rates. The next put date for the $8 million Foreign Interest Payment Securities is in the year 2006.

Debt of Employee Stock Ownership Plan (ESOP) and Trust

The Trust covers substantially all of the Company's former PE employees and is used to partially fund their retirement savings program. It has an ESOP feature and holds approximately 3.1 million shares of Sempra Energy's common stock. The variable-rate ESOP debt held by the Trust bears interest at a rate necessary to place or remarket the notes at par. The balance of this debt was $130 million at December 31, 1998, and is included in the table above. Principal is due on November 30, 1999 and interest is payable monthly. PE is obligated to make contributions to the Trust sufficient to satisfy debt service requirements. As PE makes contributions to the Trust, these contributions, plus any dividends paid on the unallocated shares of PE's common stock held by the Trust, will be used to repay the debt. As dividends are increased or decreased, required contributions are reduced or increased, respectively. Interest on ESOP debt amounted to $6 million in each of the years 1998, 1997 and 1996. Dividends used for debt service amounted to $3 million in each of the years 1998, 1997 and 1996, and are deductible only for federal income tax purposes.

NOTE 6: INCOME TAXES

The reconciliation of the statutory federal income tax rate to the effective income tax rate is as follows:

	1998	1997	1996
Statutory federal income tax rate	35.0%	35.0%	35.0%
Depreciation	9.9	6.9	6.5
State income taxes - net of federal income tax benefit	4.7	6.9	5.7
Tax credits	(1.0)	(0.9)	(0.8)
Capitalized expenses not deferred	0.4	(0.9)	(3.1)
Other - net	(2.6)	(1.9)	(0.6)
Effective income tax rate	46.4%	45.1%	42.7%

The components of income tax expense are as follows:

(Dollars in millions)	1998	1997	1996
Current:			

Federal	$242	$143	$ 68
State	65	25	25
Total current taxes	307	168	93
Deferred:			
Federal	(139)	(19)	54
State	(38)	5	7
Total deferred taxes	(177)	(14)	61
Deferred investment tax credits-net	(3)	(3)	(3)
Total income tax expense	$127	$151	$151

Deferred income taxes at December 31 result from the following:

(Dollars in millions)	1998	1997
Deferred Tax Liabilities:		
Differences in financial and tax bases of utility plant	$449	$ 495
Regulatory balancing accounts	-	161
Regulatory assets	76	90
Other	51	61
Total deferred tax liabilities	576	807
Deferred Tax Assets:		
Unamortized investment tax credits	25	27
Regulatory balancing accounts	51	-
Comprehensive settlement (see Note 13)	95	117
Postretirement benefits	76	81
Other deferred liabilities	153	157
Restructuring costs	51	54
Other	35	92
Total deferred tax assets	486	528
Net deferred income tax liability	90	279
Current portion - net asset (liability)	130	(7)
Non-current portion - net liability	$220	$272

NOTE 7: EMPLOYEE BENEFIT PLANS

The information presented below describes the plans of the Company and its principal subsidiaries. In connection with the PE/Enova Business Combination described in Note 1, certain of these plans have been or will be replaced or modified, and numerous participants have been or will be transferred from the Company's plans to those of Sempra Energy.

Pension And Other Postretirement Benefits

The Company sponsors qualified and nonqualified pension plans and other postretirement benefit plans for its employees. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two years, and a statement of the funded status as of each year end:

	Pension Benefits		Other Postretirement Benefits	
(Dollars in millions)	1998	1997	1998	1997
Weighted-Average Assumptions as of December 31:				
Discount rate	6.75%	7.00%	6.75%	7.00%
Expected return on plan assets	8.50%	8.00%	8.50%	8.00%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%
Cost trend of covered health-care charges	-	-	8.00%(1)	7.00%(2)

Change in Benefit Obligation:				
Net benefit obligation at January 1	$1,512	$1,435	$ 488	$ 401
Service cost	36	35	12	14
Interest cost	104	104	33	32
Plan participants' contributions	-	-	1	1
Plan amendments	21	-	-	-
Actuarial (gain) loss	(32)	35	(5)	56
Transfer of liability (3)	(293)	-	(43)	-
Special termination benefits	54	13	3	2
Gross benefits paid	(221)	(110)	(17)	(18)
Net benefit obligation at December 31	1,181	1,512	472	488
Change in Plan Assets:				
Fair value of plan assets at January 1	1,954	1,774	349	274
Actual return on plan assets	300	288	62	59
Employer contributions	13	2	31	33
Plan participants' contributions	-	-	1	1
Transfer of assets (3)	(447)	-	(40)	-
Gross benefits paid	(221)	(110)	(17)	(18)
Fair value of plan assets at December 31	1,599	1,954	386	349
Funded status at December 31	418	442	(86)	(139)
Unrecognized net actuarial gain	(525)	(533)	(110)	(63)
Unrecognized prior service cost	50	32	(14)	(15)
Unrecognized net transition obligation	3	4	-	-
Net liability at December 31 (4)	$ (54)	$ (55)	$(210)	$(217)

(1) Decreasing to ultimate trend of 6.50% in 2004.
(2) Decreasing to ultimate trend of 6.50% in 1998.
(3) To reflect transfer of plan assets and liability to Sempra Energy plan for Company employees transferred to Sempra Energy.
(4) Approximates amounts recognized in the Consolidated Balance Sheets at December 31.

The following table provides the components of net periodic benefit cost for the plans:

	Pension Benefits			Other Postretirement Benefits		
(Dollars in millions)	1998	1997	1996	1998	1997	1996
Service cost	$ 36	$ 35	$ 39	$ 12	$ 14	$ 17
Interest cost	104	104	103	33	32	33
Expected return on assets	(135)	(128)	(117)	(24)	(21)	(19)
Amortization of:						
Transition obligation	1	1	1	-	-	-
Prior service cost	3	3	3	(1)	(1)	(1)
Actuarial (gain) loss	(12)	(10)	-	1	1	1
Special termination benefit	54	13	-	3	2	-
Settlement credit	(30)	-	-	-	-	-
Regulatory adjustment	-	-	3	9	13	13
Total net periodic benefit cost	$ 21	$ 18	$ 32	$ 33	$ 40	$ 44

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1-percent change in assumed health care cost trend rates would have the following effects:

(Dollars in millions)	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$11	$ (9)
Effect on the health care component of the		

accumulated postretirement benefit obligation	$70	$(63)

The projected benefit obligation and accumulated benefit obligation for the pension plan were $40 million and $32 million, respectively, as of December 31, 1998, and $37 million and $34 million, respectively, as of December 31, 1997.

Other postretirement benefits include medical benefits for retirees and their spouses, and retiree life insurance.

Savings Plans

Pacific Enterprises and SoCalGas offer savings plans, administered by plan trustees, to all eligible employees. Eligibility to participate in the various employer plans ranges from one month to one year of completed service. Employees may contribute, subject to plan provisions, from 1 percent to 15 percent of their regular earnings. The employee's contributions, at the direction of the employees, are primarily invested in Sempra Energy stock, mutual funds or guaranteed investment contracts. Employer contributions, after one year of completed service, are made in shares of Sempra Energy common stock. Employer contribution methods vary by plan, but generally the contribution is equal to 50 percent of the first 6 percent of eligible base salary contributed by employees. Employer contributions for the PE and SoCalGas plans are partially funded by the Pacific Enterprises Employee Stock Ownership Plan and Trust. Annual expense for the savings plans was $8 million in 1998, 1997 and 1996.

Employee Stock Ownership Plan

The Pacific Enterprises Employee Stock Ownership Plan and Trust (Trust) covers substantially all employees of PE and SoCalGas and is used to partially fund their retirement savings plan programs. All contributions to the Trust are made by the Company, and there are no contributions made by the participants. As the Company makes contributions to the Trust, the Trust debt service is paid and shares are released in proportion to the total expected debt service.

Compensation expense is charged and equity is credited for the market value of the shares released. Income-tax deductions are allowed based on the cost of the shares. Dividends on unallocated shares are used to pay debt service and are charged against liabilities. The Trust held 3.1 and 3.3 million shares of Sempra Energy common stock, with fair values of $77.9 million and $80.3 million at December 31, 1998, and 1997, respectively.

NOTE 8: STOCK-BASED COMPENSATION

Sempra Energy has stock-based compensation plans that align employee and shareholder objectives related to Sempra Energy's long-term growth. The long-term incentive stock compensation plan provides for aggregate awards of Sempra Energy non-qualified stock options, incentive stock options, restricted stock, stock appreciation rights, performance awards, stock payments or dividend equivalents to eligible employees of Sempra Energy and its subsidiaries.

In 1995, Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based compensation," was issued. It encourages a fair-value-based method of accounting for stock-based compensation. As permitted by SFAS No. 123, Sempra Energy and its subsidiaries adopted its disclosure-only requirements and continue to account for stock-based compensation in accordance with the provisions of accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

To the extent that subsidiary employees participate in the plans or that subsidiaries are allocated a portion of Sempra Energy's costs of the plans, the subsidiaries record an expense for the plans. PE recorded expenses of $8 million in 1998, $17 million in 1997 and $6 million in 1996.

NOTE 9: FINANCIAL INSTRUMENTS

Fair Value

The fair values of the Company's financial instruments are not materially different from the carrying amounts, except for long-term debt and preferred stock. The carrying amounts and fair values of long-term debt are $1.2 billion each at December 31, 1998, and $1.3 billion each at December 31, 1997. The carrying amounts and fair values of the combined preferred stock and preferred stock of subsidiaries are $100 million and $77 million, respectively, at December 31, 1998, and $175 million and $157 million, respectively, at December 31, 1997. The fair values of the first-mortgage bonds and preferred stock are estimated based on quoted market prices for them or for similar issues. The fair values of long-term notes payable are based on the present value of the future cash flows, discounted at rates available for similar notes with comparable maturities.

Off-Balance-Sheet Financial Instruments

The Company's policy is to use derivative financial instruments to manage its exposure to fluctuations in interest rates, foreign-currency exchange rates and energy prices. Transactions involving these financial instruments expose the Company to market and credit risks which may at times be concentrated with certain counterparties, although counterparty nonperformance is not anticipated.

Energy Derivatives

Information on derivative financial instruments of SET is provided below. The Company's regulated operations use energy derivatives for price risk management purposes within certain limitations imposed by Company policies and regulatory requirements.

As a result of the GCIM (see Note 13), SoCalGas enters into a certain amount of natural gas futures contracts in the open market with the intent of reducing natural gas costs within the GCIM tolerance band. The Company's policy is to use natural gas futures contracts to mitigate risk and better manage natural gas costs. The CPUC has approved the use of natural gas futures for managing risk associated with the GCIM. For the years ended December 31, 1998, 1997 and 1996, gains and losses from natural gas futures contracts are not material to SoCalGas' financial statements.

Sempra Energy Trading

SET derives a substantial portion of its revenue from market making and trading activities, as a principal, in natural gas, petroleum and electricity. It quotes bid and offer prices to end users and other market makers. It also earns trading profits as a dealer by structuring and executing transactions that permit its counterparties to manage their risk profiles. In addition, it takes positions in energy markets based on the expectation of future market conditions. These positions may be offset with similar positions or may be offset in the exchange-traded markets. These positions include options, forwards, futures and swaps. These financial instruments represent contracts with counterparties whereby payments are linked to or derived from energy-market indices or on terms predetermined by the contract, which may or may not be physically or financially settled by SET. For the year ended December 31, 1998, substantially all of SET's derivative transactions were held for trading and marketing purposes.

Market risk arises from the potential for changes in the value of financial instruments resulting from fluctuations in natural gas, petroleum and electricity commodity-exchange prices and basis. Market risk is also affected by changes in volatility and liquidity in markets in which these instruments are traded.

SET adjusts the book value of these derivatives to market each month with gains and losses recognized in earnings. Certain instruments such as swaps are entered into and closed out within the same month and, therefore, do not have any balance-sheet impact.

SET also carries an inventory of financial instruments. As trading strategies depend on both market making and proprietary positions, given the relationships between instruments and markets, those activities are managed in concert in order to maximize trading profits.

SET's credit risk from financial instruments as of December 31, 1998, is represented by the positive fair value of financial instruments after consideration of master netting agreements and collateral. Credit risk disclosures, however, relate to the net accounting losses that would be recognized if all counterparties completely failed to perform their obligations. Options written do not expose SET to credit risk. Exchange-traded futures and options are not deemed to have significant credit exposure as the exchanges guarantee that every contract will be properly settled on a daily basis.

The following table approximates the counterparty credit quality and exposure of SET expressed in terms of net replacement value (in millions of dollars):

Counterparty credit quality:	Futures, forward and swap contracts	Purchased options	Total
AAA	$ 32	$ 1	$ 33
AA	41	14	55
A	129	19	148
BBB	290	26	316
Below investment grade	69	2	71
Exchanges	30	8	38
	$591	$ 70	$661

Financial instruments with maturities or repricing characteristics of 180 days or less, including cash and cash equivalents, are considered to be short-term and, therefore, the carrying values of these financial instruments approximate their fair values. SET's commodities owned, trading assets and trading liabilities are carried at fair value. The average fair values during the year, based on quarterly observation, for trading assets and trading liabilities which are considered financial instruments with off-balance-sheet risk approximate $952 million and $890 million, respectively. The fair values are net of the amounts offset pursuant to rights of setoff based on qualifying master netting arrangements with counterparties, and do not include the effects of collateral held or pledged.

As of December 31, 1998, and 1997, SET's trading assets and trading liabilities approximate the following:

(Dollars in millions)	December 31, 1998	1997
Trading Assets		
Unrealized gains on swaps and forwards	$ 756	$ 497
Due from commodity clearing organization and clearing brokers	75	41
OTC commodity options purchased	45	33
Due from trading counterparties	30	16
Total	$ 906	$ 587

Trading Liabilities		
Unrealized losses on swaps and forwards	$ 740	$ 487
Due to trading counterparties	35	41
OTC commodity options written	30	29
Total	$ 805	$ 557

Notional amounts do not necessarily represent the amounts exchanged by parties to the financial instruments and do not measure SET's exposure to credit or market risks. The notional or contractual amounts are used to summarize the volume of financial instruments, but do not reflect the extent to which positions may offset one another. Accordingly, SET is exposed to much smaller amounts potentially subject to risk. The notional amounts of SET's financial instruments are:

(Dollars in millions)	Total
Forwards and commodity swaps	$ 5,916
Futures and exchange options	2,915
Options purchased	1,320
Options written	1,298
Total	$11,449

NOTE 10: PREFERRED STOCK OF SUBSIDIARIES

SoCalGas (Dollars in millions)	December 31, 1998	1997

Not subject to mandatory redemption:		
$25 par value, authorized 1,000,000 shares		
6% Series, 28,664 shares outstanding	$ 1	$ 1
6% Series A, 783,032 shares outstanding	19	19
Without par value, authorized 10,000,000 shares		
7.75% Series	-	75
	$20	$95

None of SoCalGas' series of preferred stock is callable. All series have one vote per share and cumulative preferences as to dividends. On February 2, 1998, SoCalGas redeemed all outstanding shares of 7.75% Series Preferred Stock at a price per share of $25 plus $0.09 of dividends accruing to the date of redemption. The total cost to SoCalGas was approximately $75.3 million.

NOTE 11: SHAREHOLDERS' EQUITY

(Dollars in millions)	December 31, 1998	1997
COMMON EQUITY:		
Common	$ 1,117	$ 1,064
Retained earnings	395	372
Deferred compensation relating to Employee Stock Ownership Plan	(45)	(47)
Total common equity	$ 1,467	$ 1,389

The Company is authorized to issue 600,000,000 shares of common stock, 10,000,000 shares of Preferred Stock and 5,000,000 shares of Class A Preferred Stock. All shares of PE common stock are owned by Sempra Energy. No shares of Unclassified or Class A preferred stock are outstanding.

(Dollars in millions except call price)	Call Price	December 31, 1998	1997
PREFERRED STOCK:			
Cumulative preferred			
without par value:			
$4.75 Dividend, 200,000 shares authorized and outstanding	$100.00	$ 20	$ 20
$4.50 Dividend, 300,000 shares authorized and outstanding	$100.00	30	30
$4.40 Dividend, 100,000 shares authorized and outstanding	$101.50	10	10
$4.36 Dividend, 200,000 shares authorized and outstanding	$101.00	20	20
$4.75 Dividend, 253 shares authorized and outstanding	$101.00	--	--
Total		$ 80	$ 80

All or any part of every series of presently outstanding PE preferred stock is subject to redemption at PE's option at any time upon not less than 30 days notice, at the applicable redemption prices for each series, together with the accrued and accumulated dividends to the date of redemption. All series have one vote per share and cumulative preferences as to dividends.

Dividend Restrictions

At December 31, 1998, $103 million of PE's retained earnings was available for future dividends, due to the CPUC's regulation of SoCalGas' capital structure.

NOTE 12: CONTINGENCIES AND COMMITMENTS

Natural Gas Contracts

SoCalGas buys natural gas under several short-term and long-term contracts. Short-term purchases are based on monthly spot market prices. SoCalGas 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. SoCalGas recovers such fixed charges in rates.
At December 31, 1998, the future minimum payments under natural gas contracts were:

(Dollars in millions)	Storage and Transportation	Natural Gas
1999	$ 184	$ 270
2000	186	150
2001	188	153
2002	188	157
2003	184	158
Thereafter	460	-
Total minimum payments	$1,390	$ 888

Total payments under the short-term and long-term contracts were $0.9 billion in 1998, $1.1 billion in 1997, and $0.9 billion in 1996.

Leases

PE and its subsidiaries have operating leases on real and personal property expiring at various dates from 1999 to 2030. 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 PE or its subsidiaries.
The minimum rental commitments payable in future years under all noncancellable leases are(in millions of dollars):

1999	$ 49
2000	49
2001	47
2002	48
2003	45
Thereafter	350
Total future rental commitment	$ 588

Rent expense totaled $55 million in 1998, $56 million in 1997, and $58 million in 1996.
In connection with its quasi-reorganization described in Note 2 and loss on disposal of discontinued operations, PE established reserves of $102 million to fair value operating leases related to its headquarters and other leases at December 31, 1992. The remaining amount of these reserves was $76 million at December 31, 1998. These leases are reflected in the above table.

Other Commitments and Contingencies

At December 31, 1998, commitments for capital expenditures were approximately $8 million.

Environmental Issues

PE believes that its operations are conducted in accordance with federal, state and local environmental laws and regulations governing hazardous wastes, air and water quality, land use, and solid waste disposal. SoCalGas incurs significant costs to operate its facilities in compliance with these laws and regulations. The costs of compliance with environmental laws and regulations generally have been recovered in customer rates.
In 1994, the CPUC approved the Hazardous Waste Collaborative Memorandum account allowing utilities to recover their hazardous-waste costs, including those related to Superfund sites or similar sites requiring cleanup. Recovery of 90 percent of cleanup costs and related third-party litigation costs and 70 percent of the related insurance-litigation expenses is permitted. In addition, the Company has the opportunity to retain a percentage of any insurance recoveries to offset the 10 percent of costs not recovered in rates. Environmental liabilities that may arise are recorded when remedial efforts are probable and the costs can be estimated.
PE capital expenditures to comply with environmental laws and regulations were $1 million in 1998, $1 million in 1997, and $3 million in 1996, and are not expected to be significant over the next five years.
SoCalGas has identified and reported to California

environmental authorities 42 former manufactured-gas plant sites for which it (together with other utilities as to 21 of these sites) may have remedial obligations under environmental laws. As of December 31, 1998, 12 of these sites have been remediated, of which 10 have received certification from the California Environmental Protection Agency. Preliminary investigations, at a minimum, have been completed on 39 of the gas plant sites. At December 31, 1998, the Company's estimated remaining investigation and remediation liability for the above sites was $68 million, of which 90 percent is authorized to be recovered through the Hazardous Waste Collaborative Mechanism. In addition, PE and its subsidiaries have been named as potentially responsible parties for two landfill sites and two industrial waste disposal sites. The total cost estimate for remediation of these four sites is $5 million. The Company believes that any costs not ultimately recovered through rates, insurance or other means, upon giving effect to previously established liabilities, will not have a material adverse effect on the Company's consolidated results of operations or financial position.

PE and its subsidiaries have been associated with various other sites, which may require remediation under federal, state or local environmental laws. PE is unable to determine fully the extent of its responsibility for remediation of these sites until assessments are completed. Furthermore, the number of others that also may be responsible, and their ability to share in the cost of the cleanup is not known. The Company does not anticipate that such costs net of the portion recoverable in rates, will be significant.

Litigation

PE is involved in various legal matters arising out of the ordinary course of business. Management believes that these matters will not have a material adverse effect on Pacific Enterprise's results of operations, financial condition or liquidity.

Concentration of Credit Risk

PE maintains credit policies and systems to minimize overall credit risk. These policies include, when applicable, the use of an evaluation of potential counterparties' financial condition and an assignment of credit limits. These credit limits are established based on risk and return considerations under terms customarily available in the industry.

SoCalGas grants credit to its utility customers, substantially all of whom are located in its service territories, which covers most of Southern California and a portion of Central California.

NOTE 13: REGULATORY MATTERS

Natural Gas Industry Restructuring

The natural gas industry experienced an initial phase of restructuring during the 1980s by deregulating natural gas sales to noncore customers. On January 21, 1998, the CPUC released a staff report initiating a project to assess the current market and regulatory framework for California's natural gas industry. The general goals of the plan are to consider reforms to the current regulatory framework emphasizing market-oriented policies benefiting California natural gas consumers.

On August 25, 1998, California adopted a law prohibiting the CPUC from enacting any natural gas industry restructuring decision for customers prior to January 1, 2000. During the moratorium, the CPUC will hold hearings throughout the state and intends to give the California Legislature a report for its review detailing specific recommendations for changing the natural gas market within California. SoCalGas will actively participate in this effort.

Performance-Based Regulation (PBR)

To promote efficient operations and improved productivity and to move away from reasonableness reviews and disallowances, the CPUC has been directing utilities to use PBR. PBR has replaced the general rate case and certain other regulatory proceedings for SoCalGas. Under PBR, regulators require future income potential to be tied to achieving or exceeding specific performance and productivity measures, as well as cost reductions, rather than relying solely on expanding utility rate base in a market where a utility already has a highly developed infrastructure.

SoCalGas' PBR is in effect through December 31, 2002; however, the CPUC decision allows for the possibility that changes to the

PBR mechanism could be adopted in a decision to be issued in SoCalGas' 1999 Biennial Cost Allocation Proceeding, which is anticipated to become effective before year end 1999. Key elements of the SoCalGas PBR include an initial reduction in base rates, an indexing mechanism that limits future rate increases to the inflation rate less a productivity factor, a sharing mechanism with customers if earnings exceed the authorized rate of return on rate base, and rate refunds to customers if service quality deteriorates. Specifically, the key elements of SoCalGas' PBR include the following:

- --Earnings up to 25 basis points in excess of the authorized rate of return on rate base are retained 100 percent by shareholders. Earnings that exceed the authorized rate of return on rate base by greater than 25 basis points are shared between customers and shareholders on a sliding scale that begins with 75 percent of the additional earnings being given back to customers and declining to 0 percent as earned returns approach 300 basis points above authorized amounts. There is no sharing if actual earnings fall below the authorized rate of return. In 1999, SoCalGas is authorized to earn a 9.49 percent return on rate base, the same as in 1998.

- --Revenue or base margin per customer is indexed based on inflation less an estimated productivity factor of 2.1 percent in the first year (1998), increasing 0.1 percent per year up to 2.5 percent in the fifth year (2002). This factor includes 1 percent to approximate the projected impact of a declining rate base.

- --The CPUC decision allows for pricing flexibility for residential and small commercial customers, with any shortfalls in revenue being borne by shareholders and with any increase in revenue shared between shareholders and customers.

Under SoCalGas' PBR, annual cost of capital proceedings are replaced by an automatic adjustment mechanism if changes in certain indices exceed established tolerances. The mechanism is triggered if the 12-month trailing average of actual market interest rates increases or decreases by more than 150 basis points and is forecasted to continue to vary by at least 150 basis points for the next year. If this occurs, there would be an automatic adjustment of rates for the change in the cost of capital according to a preestablished formula which applies a percentage of the change to various capital components.

Comprehensive Settlement Of Natural Gas Regulatory Issues

In July 1994, the CPUC approved a comprehensive settlement for SoCalGas (Comprehensive Settlement) of a number of regulatory issues, including rate recovery of a significant portion of the restructuring costs associated with certain long-term contracts with suppliers of California-offshore and Canadian natural gas. In the past, the cost of these supplies had been substantially in excess of SoCalGas' average delivered cost for all natural gas supplies. The restructured contracts substantially reduced the ongoing delivered costs of these supplies. The Comprehensive Settlement permits SoCalGas to recover in utility rates approximately 80 percent of the contract-restructuring costs of $391 million and accelerated amortization of related pipeline assets of approximately $140 million, together with interest, incurred prior to January 1, 1999. In addition to the supply issues, the Comprehensive Settlement addressed the following other regulatory issues:

- --Noncore Customer Rates. The Comprehensive Settlement changed the procedures for determining noncore rates to be charged by SoCalGas for the five-year period commencing August 1, 1994. These rates are based upon SoCalGas' recorded throughput to these customers for 1991. SoCalGas will bear the full risk of any declines in noncore deliveries from 1991 levels. Any revenue enhancement from deliveries in excess of 1991 levels will be limited by a crediting account mechanism that will require a credit to customers of 87.5 percent 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. SoCalGas' ability to report as earnings the results from revenues in excess of SoCalGas' authorized return from noncore customers due to volume increases has been limited for the five years beginning August 1, 1994, as a result of the Comprehensive Settlement. The 1999 Biennial Cost Allocation Proceeding is intended to adopt measures to replace this aspect of the Comprehensive Settlement when it expires during 1999.

- --Gas Cost Incentive Mechanism (GCIM). On April 1, 1994, SoCalGas implemented a new process for evaluating its natural gas purchases, substantially replacing the previous process of reasonableness reviews. Initially a three-year pilot program, in December 1998 the CPUC extended the GCIM program indefinitely. Automatic annual extensions to the program will continue unless the CPUC issues an order stating otherwise.

GCIM compares SoCalGas' cost of natural gas with a benchmark level, which is the average price of 30-day firm spot supplies in the basins in which SoCalGas purchases the natural gas. The mechanism permits full recovery of all costs within a tolerance band above the benchmark price and refunds all savings within a tolerance band below the benchmark price. The costs or savings outside the tolerance band are shared equally between customers and shareholders.

The CPUC approved the use of natural gas futures for managing risk associated with the GCIM. SoCalGas enters into natural gas futures contracts in the open market on a limited basis to mitigate risk and better manage natural gas costs.

In June 1997, SoCalGas requested a shareholder award of $11 million, which was approved by the CPUC in June 1998 and is included in pretax income in 1998. In June 1998, SoCalGas filed its annual GCIM application with the CPUC, requesting an award of $2 million for the annual period ended March 31, 1998. This request was approved by the CPUC in December 1998 and is included in pretax income in 1998.

- --Attrition Allowances. The Comprehensive Settlement authorized SoCalGas an annual allowance for increases in operating and maintenance expenses. However, no attrition allowance was authorized for 1997 and beyond, based on an agreement reached as part of the PBR application.

PE and SoCalGas recorded the impact of the Comprehensive Settlement in 1993. Upon giving effect to liabilities previously recognized by the companies, the costs of the Comprehensive Settlement, including the restructuring of natural gas supply contracts, did not result in any future charge to PE's earnings.

Biennial Cost Allocation Proceeding (BCAP)

In the second quarter of 1997, the CPUC issued a decision on SoCalGas' 1996 BCAP filing.

In this decision, the CPUC considered SoCalGas' relinquishments of interstate pipeline capacity on both the El Paso and Transwestern pipelines. This resulted in a reduction in the pipeline demand charges allocated to SoCalGas' customers and surcharges allocated to firm capacity holders through pipeline rate-case settlements adopted at the FERC. However, the CPUC and FERC are reviewing the decision.

In October 1998, SoCalGas filed 1999 BCAP applications requesting that new rates become effective August 1, 1999 and remain in effect through December 31, 2002. The proposed beginning date follows the conclusion of the Comprehensive Settlement (discussed above), and the proposed end date aligns with the expiration of SoCalGas' PBR. The application seeks overall decreases in natural gas revenues of $204 million.

Cost of Capital

Under PBR, annual Cost of Capital proceedings were replaced by an automatic adjustment mechanism if changes in certain indices exceed established tolerances. For 1999, SoCalGas is authorized to earn a rate of return on common equity of 11.6 percent and a 9.49 percent return on rate base, the same as in 1998, unless interest-rate changes are large enough to trigger an automatic adjustment as discussed above under "Performance-Based Regulation."

Transactions with Affiliates

On December 16, 1997, the CPUC adopted rules, effective January 1, 1998, establishing uniform standards of conduct governing the manner in which IOUs conduct business with their energy-related affiliates. The objective of the affiliate-transaction rules is to ensure that these affiliates do not gain an unfair advantage over other competitors in the marketplace and that utility customers do not subsidize affiliate activities. The rules establish standards relating to non-discrimination, disclosure and information exchange, and separation of activities.

The CPUC excluded utility-to-utility transactions between SDG&E and SoCalGas from the affiliate-transaction rules in its March 1998 decision approving the business combination of Enova and

PE (see Note 1).

During 1998, 1997 and 1996, the Company sold natural gas transportation and storage services to SDG&E in the amount of $55 million to $60 million per year. These sales were at rates established by the CPUC.

NOTE 14: SEGMENT INFORMATION

The Company has two separately managed reportable segments: SoCalGas and Sempra Energy Trading (SET). SoCalGas is a natural gas distribution utility, serving customers throughout most of Southern California and part of Central California. SET is based in Stamford, Connecticut, and is engaged in the nationwide wholesale trading and marketing of natural gas, power and petroleum. The Company has a 50 percent ownership interest in SET, and accounts for this investment on the equity method of accounting. However, for segment reporting, items of income and assets for SET are reported at 100 percent. A corresponding adjustment is made to reconcile the amounts to those that were reported by the Company under the equity method. The accounting policies of the segments are the same as those described in Note 2, and segment performance is evaluated by management based on reported net income. Intersegment transactions are generally recorded the same as sales or transactions with third parties. Utility transactions are primarily based on rates set by the CPUC.

	For the years ended December 31,		
(Dollars in millions)	1998	1997	1996
Revenues and Other Income:			
Southern California Gas	$ 2,427	$ 2,641	$ 2,422
Sempra Energy Trading	110	--	--
Sempra Energy Trading adjustment	(110)	--	--
All other	45	136	166
Total	$ 2,472	$ 2,777	$ 2,588
Interest Revenue:			
Southern California Gas	$ 4	$ 16	$ 5
Sempra Energy Trading	3	--	--
Sempra Energy Trading adjustment	(3)	--	--
All other	15	15	14
Total Interest	19	31	19
Sundry income	1	15	6
Total Other Income	$ 20	$ 46	$ 25
Depreciation and amortization:			
Southern California Gas	$ 254	$ 251	$ 248
Sempra Energy Trading	13	--	--
Sempra Energy Trading adjustment	(13)	--	--
All other	5	5	7
Total	$ 259	$ 256	$ 255
Interest Expense:			
Southern California Gas	$ 80	$ 87	$ 86
Sempra Energy Trading	5	--	--
Sempra Energy Trading adjustment	(5)	--	--
All other	(13)	16	11
Total	$ 67	$ 103	$ 97
Income Tax Expense (Benefit):			
Southern California Gas	$ 128	$ 178	$ 148
Sempra Energy Trading	(9)	--	--
Sempra Energy Trading adjustment	9	--	--
All other	(1)	(27)	3
Total	$ 127	$ 151	$ 151
Net Income:			
Southern California Gas	$ 158	$ 231	$ 193
Sempra Energy Trading	(13)	--	--
Sempra Energy Trading adjustment	7	--	--
All other	(5)	(47)	10
Total	$ 147	$ 184	$ 203

(Dollars in millions)	At December 31, or for the year then ended 1998	1997	1996
Assets:			
Southern California Gas	$ 3,834	$ 4,205	$ 4,354
Sempra Energy Trading	1,225	846	--
Sempra Energy Trading adjustment	(1,225)	(846)	--
All other	764	772	832
Total	$ 4,598	$ 4,977	$ 5,186
Capital Expenditures:			
Southern California Gas	$ 128	$ 159	$ 197
Sempra Energy Trading	--	--	--
All other	22	28	7
Total	$ 150	$ 187	$ 204
Geographic Information:			
Long-lived assets			
United States	$ 3,096	$ 3,287	$ 3,301
Latin America	106	58	51
Total	$ 3,202	$ 3,345	$ 3,352
Revenues and Other Income:			
United States	$ 2,471	$ 2,776	$ 2,587
Latin America	1	1	1
Total	$ 2,472	$ 2,777	$ 2,588

NOTE 15: SUBSEQUENT EVENT

On February 22, 1999, Sempra Energy and KN Energy, Inc. (KN Energy) announced that their respective boards of directors approved Sempra Energy's acquisition of KN Energy, subject to approval by the shareholders of both companies and by various federal and state regulatory agencies. If the transaction is approved, holders of KN Energy common stock will receive 1.115 shares of Sempra Energy common stock or $25 in cash, or some combination thereof, for each share of KN Energy common stock. In the aggregate, the cash portion of the transaction will constitute not more than 30 percent of the total consideration of $1.7 billion. The companies anticipate that the closing will occur in six to eight months. The transaction will be treated as a purchase for accounting purposes.

NOTE 16: QUARTERLY FINANCIAL DATA (UNAUDITED)

Dollars in millions	Quarter ended March 31	June 30	September 30	December 31
1998				
Operating Revenues	$ 678	$ 585	$ 521	$ 688
Operating expenses	581	541	421	588
Operating income	$ 97	$ 44	$ 100	$ 100
Net income	$ 40	$ 12	$ 45	$ 50
Dividends on preferred stock	1	1	1	1
Net income applicable to common shares	$ 39	$ 11	$ 44	$ 49
1997				
Operating Revenues	$ 803	$ 598	$ 624	$ 752
Operating expenses	687	470	525	657
Operating income	$ 116	$ 128	$ 99	$ 95
Net income	$ 50	$ 57	$ 37	$ 40
Dividends on preferred stock	1	1	1	1

Net income applicable to common shares	$ 49	$ 56	$ 36	$ 39

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

The information required on Identification of Directors is incorporated by reference from "Election of Directors" in the Information Statement prepared for the May 1999 annual meeting of shareholders. The information required on the Company's executive officers is set forth in Item 4 herein.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from "Election of Directors" and "Executive Compensation" in the Information Statement prepared for the May 1999 annual meeting of shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated by reference from "Election of Directors" in the Information Statement prepared for the May 1999 annual meeting of shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

None.

PART IV

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

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

1. Financial statements

	Page in This Report
Independent Auditors' Report	30
Statements of Consolidated Income for the years ended December 31, 1998, 1997 and 1996	31
Consolidated Balance Sheets at December 31, 1998 and 1997	32
Statements of Consolidated Cash Flows for the years ended December 31, 1998, 1997 and 1996	34
Statements of Consolidated Changes in Shareholders' Equity for the years ended December 31, 1998, 1997 and 1996	36
Notes to Consolidated Financial Statements	37
Quarterly Financial Data (Unaudited)	61

2. Financial statement schedules

The following documents may be found in this report at the indicated page numbers:

Independent Auditors' Consent and Report on Schedule	63
Schedule I--Condensed Financial Information of Parent	64

Any other schedules for which provision is made in Regulation S-X are not required under the instructions contained therein, are inapplicable, or the information is included in the notes to the

Consolidated Financial Statements herein.

3. Exhibits
See Exhibit Index on page 67 of this report.

(b) Reports on Form 8-K
There were no reports on Form 8-K filed after September 30, 1998.

INDEPENDENT AUDITORS' CONSENT AND REPORT ON SCHEDULE

To the Board of Directors and Shareholders of Pacific Enterprises:

We consent to the incorporation by reference in Registration Statement Nos. 2-96782, 33-26357, 2-66833, 2-96781, 33-21908 and 33-54055 of Pacific Enterprises on Forms S-8 and Registration Statement Nos. 33-24830 and 33-44338 of Pacific Enterprises on Forms S-3 of our report dated January 27, 1999, except for Note 15 as to which the date is February 22, 1999, appearing in this Annual Report on Form 10-K of Pacific Enterprises for the year ended December 31, 1998.

Our audits of the financial statements referred to in our aforementioned report also included the financial statement schedule of Pacific Enterprises, listed in Item 14. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
March 31, 1999

Schedule I -- CONDENSED FINANCIAL INFORMATION OF PARENT

PACIFIC ENTERPRISES
Schedule 1
Condensed Financial Information of Parent

Condensed Statements of Income
(Dollars in millions)

For the years ended December 31	1998	1997	1996
Revenues and other income	$ 11	$ 20	$ 65
Expenses, interest and income taxes	20	59	64
Loss before subsidiary earnings	(9)	(39)	1
Subsidiary earnings	152	219	195
Earnings applicable to common shares	$ 143	$ 180	$ 196

PACIFIC ENTERPRISES
Schedule 1 (continued)
Condensed Financial Information of Parent

Condensed Balance Sheets
(Dollars in millions)

Balance at December 31	1998	1997
Assets:		
Cash and temporary investments	$ 3	$ 151
Other current assets	130	13
Total current assets	133	164

Investments in subsidiaries	1,763	1,659
Deferred charges and other assets	162	232
Total Assets	$ 2,058	$ 2,055
Liabilities and Shareholders' Equity:		
Dividends payable	$ 1	$ 2
Due to affiliates	171	180
Other current liabilities	203	51
Total current liabilities	375	233
Other long-term liabilities	136	353
Preferred stock	80	80
Common equity	1,467	1,389
Total Liabilities and Shareholders' Equity	$ 2,058	$ 2,055

PACIFIC ENTERPRISES
Schedule 1 (continued)
Condensed Financial Information of Parent

Condensed Statements of Cash Flows
(Dollars in millions)

For the years ended December 31	1998	1997	1996
Cash flows from operating activities	$ (220)	$ (19)	$ (110)
Expenditures for property, plant and equipment	(12)	(10)	--
Dividends received from subsidiaries	164	251	255
Increase in investments and other	(53)	(152)	(1)
Cash flows from investing activities	99	89	254
Sale of common stock	27	17	8
Repurchase of common stock	--	(48)	(24)
Increase in short-term debt	43	--	
Redemption of preferred stock	--	--	(110)
Common dividends	(97)	(122)	(119)
Cash flows from financing activities	(27)	(153)	(245)
Net cash flow	(148)	(83)	(101)
Cash and temporary investments, beginning of year	151	234	335
Cash and temporary investments, end of year	$ 3	$ 151	$ 234

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, hereunto duly authorized.

PACIFIC ENTERPRISES

By:
/s/ Richard D. Farman .
Richard D. Farman
Chairman and Chief Executive Officer

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

Name/Title Signature Date

Principal Executive Officers:

Richard D. Farman Chairman, Chief Executive Officer	/s/ Richard D. Farman	March 2, 1999
Stephen L. Baum President, Chief Operating Officer	/s/ Stephen L. Baum	March 2, 1999
Principal Financial Officer: Neal E. Schmale Executive Vice President, Chief Financial Officer	/s/ Neal E. Schmale	March 2, 1999
Principal Accounting Officer: Frank H. Ault Vice President, Controller	/s/ Frank H. Ault	March 2, 1999
Directors: Richard D. Farman Chairman	/s/ Richard D. Farman	March 2, 1999
Hyla H. Bertea Director	/s/ Hyla H. Bertea	March 2, 1999
Ann Burr Director	/s/ Ann Burr	March 2, 1999
Herbert L. Carter Director	/s/ Herbert L. Carter	March 2, 1999
Richard A. Collato Director	/s/ Richard A. Collato	March 2, 1999
Daniel W. Derbes Director	/s/ Daniel W. Derbes	March 2, 1999
Wilford D. Godbold, Jr. Director	/s/ Wilford D. Godbold, Jr.	March 2, 1999
Robert H. Goldsmith Director	/s/ Robert H. Goldsmith	March 2, 1999
William D. Jones Director	/s/ William D. Jones	March 2, 1999
Ignacio E. Lozano, Jr. Director	/s/ Ignacio E. Lozano, Jr.	March 2, 1999
Ralph R. Ocampo Director	/s/ Ralph R. Ocampo	March 2, 1999
William G. Ouchi Director	/s/ William G. Ouchi	March 2, 1999
Richard J. Stegemeier Director	/s/ Richard J. Stegemeier	March 2, 1999
Thomas C. Stickel Director	/s/ Thomas C. Stickel	March 2, 1999
Diana L. Walker Director	/s/ Diana L. Walker	March 2, 1999

EXHIBIT INDEX

The Forms 8-K, 10-K and 10-Q referred to herein were filed under Commission File Number 1-14201 (Sempra Energy), Commission File Number 1-40 (Pacific Enterprises) and/or Commission File Number 1-1402 (Southern California Gas Company).

Exhibit 3 -- By-Laws and Articles Of Incorporation

3.01 Articles of Incorporation of Pacific Enterprises (Pacific Enterprises 1996 Form 10-K; Exhibit 3.01).

3.02 Restated bylaws of Pacific Enterprises dated March 2, 1999.

Exhibit 4 -- Instruments Defining The Rights Of Security Holders

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

4.01 Specimen Common Stock Certificate of Pacific Enterprises (Pacific Enterprises 1988 Form 10-K; Exhibit 4.01).

4.02 Specimen Preferred Stock Certificates of Pacific Enterprises (Pacific Lighting Corporation 1980 Form 10-K; Exhibit 4.02).

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

4.04 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of July 1, 1947 (Registration Statement No. 2-7072 filed by Southern California Gas Company on March 15, 1947; Exhibit B-5).

4.05 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of August 1, 1955 (Registration Statement No. 2-11997 filed by Pacific Lighting Corporation on October 26, 1955; Exhibit 4.07).

4.06 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of June 1, 1956 (Registration Statement No. 2-12456 filed by Southern California Gas Company on April 23, 1956; Exhibit 2.08).

4.07 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of August 1, 1972 (Registration Statement No. 2-59832 filed by Southern California Gas Company on September 6, 1977; Exhibit 2.19).

4.08 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of May 1, 1976 (Registration Statement No. 2-56034 filed by Southern California Gas Company on April 14, 1976; Exhibit 2.20).

4.09 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of September 15, 1981 (Pacific Lighting Corporation 1981 Form 10-K; Exhibit 4.25).

4.10 Supplemental Indenture of Southern California Gas Company to Manufacturers Hanover Trust Company of California, successor to Wells Fargo Bank, National Association, and Crocker National Bank as Successor Trustee dated as of May 18, 1984 (Pacific Lighting Corporation 1984 Form 10-K; Exhibit 4.29).

4.11 Supplemental Indenture of Southern California Gas Company to Bankers Trust Company of California, N.A., successor to Wells Fargo Bank, National Association dated as of January 15, 1988 (Pacific Enterprises 1987 Form 10-K; Exhibit 4.11).

4.12 Supplemental Indenture of Southern California Gas Company to First Trust of California, National Association, successor to Bankers Trust Company of California, N.A. (Registration Statement No. 33-50826 filed by Southern California Gas Company on August 13, 1992; Exhibit 4.37).

4.13 Rights Agreement dated as of March 7, 1990 between Pacific Enterprises and Security Pacific National Bank, as Rights Agent (Pacific Enterprises September 25, 1992 Form 8-K; Exhibit 4).

Exhibit 10 -- Material Contracts

10.01 Form of Indemnification Agreement between Pacific Enterprises and each of its directors and officers (Pacific Enterprises 1992 Form 10-K; Exhibit 10.07).

10.03 Operating Agreement of Mineral JV, LLC, dated as of January 13, 1997 (Registration Statement No. 333-21229 filed by Mineral Energy Company on February 5, 1997; Exhibit 10.5).

Executive Compensation Plans and Arrangements

10.09 Sempra Energy Supplemental Executive Retirement Plan as amended and restated effective July 1, 1998 (1998 Sempra Energy Form 10-K Exhibit 10.09).

10.11 Sempra Energy Executive Incentive Plan effective June 1, 1998 (1998 Sempra Energy Form 10-K Exhibit 10.11).

10.12 Sempra Energy Executive Deferred Compensation Agreement effective June 1, 1998 (1998 Sempra Energy Form 10-K Exhibit 10.12).

10.12 Pacific Enterprises Deferred Compensation Plan for Key Management Employees (Pacific Lighting Corporation 1985 Form 10-K; Exhibit 10.41).

10.14 Sempra Energy 1998 Long Term Incentive Plan (Incorporated by reference from the Registration Statement on Form S-8 Sempra Energy Registration No. 333-56161 dated June 5, 1998; Exhibit 4.1).

10.16 Enova Corporation 1986 Long-Term Incentive Plan amended and restated as the Sempra Energy 1986 Long-Term Incentive Plan (Incorporated by reference from the Registration Statement on Form S-8 Sempra Energy Registration No. 333-56161; Exhibit 4.3).

10.17 Pacific Lighting Corporation Stock Incentive Plan amended and restated as the Sempra Energy Stock Incentive Plan (Incorporated by reference from the Registration Statement on Form S-8 Sempra Energy Registration No. 333-56161; Exhibit 4.4).

10.18 Pacific Enterprises Employee Stock Option Plan amended and restated as the Sempra Energy Employee Stock Option Plan (Incorporated by reference from the Registration Statement on Form S-8 Sempra Energy Registration No. 333-56161; Exhibit 4.5).

10.04 Restatement and Amendment of Pacific Enterprises 1979 Stock Option Plan (Registration Statement No. 2-66833 filed by Pacific Lighting Corporation on March 5, 1980; Exhibit 1.1).

10.05 Pacific Enterprises Supplemental Medical Reimbursement Plan for Senior Officers (Pacific Lighting Corporation 1980 Form 10-K; Exhibit 10.24).

10.06 Pacific Enterprises Financial Services Program for Senior Officers (Pacific Lighting Corporation 1980 Form 10-K; Exhibit 10.25).

10.07 Pacific Enterprises Supplemental Retirement and Survivor Plan (Pacific Lighting Corporation 1984 Form 10-K; Exhibit 10.36).

10.08 Pacific Lighting Corporation Stock Payment Plan (Pacific Lighting Corporation 1984 Form 10-K; Exhibit 10.37).

10.09 Pacific Lighting Corporation Pension Restoration Plan (Pacific Lighting Corporation 1980 Form 10-K; Exhibit 10.28).

10.10 Southern California Gas Company Pension Restoration Plan For Certain Management Employees (Pacific Lighting Corporation 1980 Form 10-K; Exhibit 10.29).

10.11 Pacific Enterprises Executive Incentive Plan (Pacific Enterprises 1987 Form 10-K; Exhibit 10.13).

10.13 Pacific Enterprises Employee Stock Ownership Plan and Trust Agreement as amended effective October 1, 1992. (Pacific Enterprises 1992 Form 10-K; Exhibit 10.18).

10.14 Pacific Enterprises Stock Incentive Plan (Registration Statement No. 33-21908 filed by Pacific Enterprises on May 17, 1988; Exhibit 4.01).

10.15 Pacific Enterprises Retirement Plan for Directors (Pacific Enterprises 1992 Form 10-K; Exhibit 10.20).

10.16 Pacific Enterprises Director's Deferred Compensation Plan (Pacific Enterprises 1992 Form 10-K; Exhibit 10.21).

10.17 Amended and Restated Pacific Enterprises Employee Stock Option Plan (as of March 4, 1997) (Pacific Enterprises 1996 Form 10-K; Exhibit 10.17).

10.18 Form of Severance Agreement (Pacific Enterprises 1996 Form 10-K; Exhibit 10.18).

10.19 Form of Incentive Bonus Agreement (Pacific Enterprises 1996 Form 10-K; Exhibit 10.19).

Exhibit 21 -- Subsidiaries

See Notes 1 and 3 of notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Items 7 and 8 herein.

Exhibit 23 - Independent Auditors' Consent, page 63.

Exhibit 27 -- Financial Data Schedule

27.01 Financial Data Schedule for the year ended December 31, 1998.

GLOSSARY

BCAP	Biennial Cost Allocation Proceeding
Bcf	Billion Cubic Feet (of natural gas)
CPUC	California Public Utilities Commission
DGN	Distribuidora de Gas Natural
Enova	Enova Corporation
EOR	Enhanced Oil Recovery
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GCIM	Gas Cost Incentive Mechanism
GRC	General Rate Case
IDBs	Industrial Development Bonds
IOUs	Investor-Owned Utilities
IT	Information Technology
Mcf	Thousand Cubic Feet (of natural gas)
Mmcfd	Million Cubic Feet (of natural gas) per day
ORA	Office of Ratepayer Advocates
PBR	Performance-Based Ratemaking
PE	Pacific Enterprises
PEI	Pacific Enterprises International
PRP	Potential Responsible Party
ROE	Return on Equity
ROR	Rate of Return
SDG&E	San Diego Gas & Electric Company
SEC	Securities and Exchange Commission
SEI	Sempra Energy International
SER	Sempra Energy Resources
Solutions	Sempra Energy Solutions
SET	Sempra Energy Trading
SEUV	Sempra Energy Utility Ventures
SFAS	Statement of Financial Accounting Standards
SoCalGas	Southern California Gas Company
UEG	Utility electric generation
VaR	Value at Risk

BYLAWS
Of
PACIFIC ENTERPRISES
______
ARTICLE I
Principal Office
SECTION 1. The principal executive office of the Company is located at 101 Ash Street, City of San Diego, County of San Diego, California.
ARTICLE II
Meetings of Shareholders
SECTION 1. All Meetings of Shareholders shall be held either at the principal executive office of the Company or at any other place within or without the state as may be designated by resolution of the Board of Directors.
SECTION 2. An Annual Meeting of Shareholders shall be held each year on such date and at such time as may be designated by resolution of the Board of Directors.
SECTION 3. At an Annual Meeting of Shareholders, only such business shall be conducted as shall have been properly brought before the Annual Meeting. To be properly brought before an Annual Meeting, business must be (a) specified in the notice of the Annual Meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the Annual Meeting by a Shareholder. For business to be properly brought before an Annual Meeting by a Shareholder, including the nomination of any person (other than a person nominated by or at the direction of the Board of Directors) for election to the Board of Directors, the Shareholder must have given timely and proper written notice to the Secretary of the Company. To be timely, the Shareholder's written notice must be received at the principal executive office of the Company not less than sixty nor more than one hundred twenty days in advance of the date corresponding to the date of the last Annual Meeting; provided, however, that in the event the Annual Meeting to which the Shareholder's written notice relates is to be held on a date which differs by more than sixty days from the date corresponding to the date of the last Annual Meeting, the Shareholder's written notice to be timely must be so received not later than the close of business on the tenth day following the date on which public disclosure of the date of the Annual Meeting is made or given to Shareholders. To be proper, the Shareholder's written notice must set forth as to each matter the Shareholder proposes to bring before the Annual Meeting (a) a brief description of the business desired to be brought before the Annual Meeting, (b) the name and address of the Shareholder as they appear on the Company's books, (c) the class and number of shares of the Company which are beneficially owned by the Shareholder, and (d) any material interest of the Shareholder in such business. In addition, if the Shareholder's written notice relates to the nomination at the Annual Meeting of any person for election to the Board of Directors, such notice to be proper must also set forth (a) the name, age, business address and residence address of each person to be nominated, (b) the principal occupation or employment of each such person, (c) the number of shares of capital stock beneficially owned by each such person, and (d) such other information concerning each such person as would be required under the rules of the Securities and Exchange Commission in a proxy statement soliciting proxies for the election of such person as a Director, and must be accompanied by a consent, signed by each such person, to serve as a Director of the Company if elected. Notwithstanding anything in the Bylaws to the contrary, no business shall be conducted at an Annual Meeting except in accordance with the procedures set forth in this Section 3.
SECTION 4. Each Shareholder of the Company shall be entitled to elect voting confidentiality as provided in this Section 4 on all matters submitted to Shareholders by the Board of Directors and each form of proxy, consent, ballot or other written voting instruction distributed by the Company to Shareholders shall include a check box or other appropriate mechanism by which Shareholders who desire to do so may so elect voting confidentiality.
All inspectors of election, vote tabulators and other persons appointed or engaged by or on behalf of the Company to process voting instructions (none of whom shall be a Director or Officer of the Company or any of its affiliates) shall be advised of and instructed to comply with this Section 4 and, except as required or permitted hereby, not at any time to disclose to any person (except to other persons engaged in processing voting instructions), the identity and individual vote of any Shareholder electing voting confidentiality; provided, however, that voting confidentiality shall not apply and the name and individual vote

of any Shareholder may be disclosed to the Company or to any person (i) to the extent that such disclosure is required by applicable law or is appropriate to assert or defend any claim relating to voting or (ii) with respect to any matter for which votes of Shareholders are solicited in opposition to any of the nominees or the recommendations of the Board of Directors unless the persons engaged in such opposition solicitation provide Shareholders of the Company with voting confidentiality (which, if not otherwise provided, will be requested by the Company) comparable in the opinion of the Company to the voting confidentiality provided by this Section 4.

ARTICLE III

Board of Directors

SECTION 1. The Board of Directors shall have power to:

a. Conduct, manage and control the business of the Company, and make rules consistent with law, the Articles of Incorporation and the Bylaws;

b. Elect, and remove at their discretion, Officers of the Company, prescribe their duties, and fix their compensation;

c. Authorize the issue of shares of stock of the Company upon lawful terms: (i) in consideration of money paid, labor done, services actually rendered to the Company or for its benefit or in its reorganization, debts or securities cancelled, and tangible or intangible property actually received either by this Company or by a wholly-owned subsidiary; but neither promissory notes of the purchaser (unless adequately secured by collateral other than the shares acquired or unless permitted by Section 408 of the California Corporations Code) nor future services shall constitute payment or part payment for shares of this Company, or (ii) as a share dividend or upon a stock split, reverse stock split, reclassifications of outstanding shares into shares of another class, conversion of outstanding shares into shares of another class, exchange of outstanding shares for shares of another class or other change affecting outstanding shares;

d. Borrow money and incur indebtedness for the purposes of the Company, and cause to be executed and delivered, in the Company name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt;

e. Elect an Executive Committee and other committees.

SECTION 2. The Board of Directors shall elect an Executive Committee from the Directors, which shall consist of five members including the Chairman of the Board and the President. The Board may designate one of the members of the Executive Committee as the Chairman of the Executive Committee and may also designate one or more Directors as alternate members of the Executive Committee, who may replace any absent member at any meeting of the Executive Committee. Subject to change by resolution adopted by the Board of Directors or the Executive Committee, meetings of the Executive Committee shall be called and held at times and places fixed by the Chairman of the Board, the Chairman of the Executive Committee, or any two members of the Executive Committee; notice of meetings shall be given in the manner described in the Bylaws for giving notice of special meetings of the Board of Directors; the Chairman of the Executive Committee shall preside and, in his absence, the Chairman of the Board shall be the presiding officer. The Executive Committee shall have all the authority of the Board of Directors except with respect to (a) the approval of any action for which California General Corporation Law also requires shareholders' approval or approval of the outstanding shares; (b) the filling of vacancies on the Board or in any committee; (c) the fixing of compensation of the Directors for serving on the Board or on any committee; (d) the amendment or repeal of Bylaws or the adoption of new bylaws; (e) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable; (f) a distribution, except at a rate, in a periodic amount or within a price range set forth in the Articles of Incorporation or determined by the Board; (g) the appointment of other committees of the Board or the members thereof; and (h) the fixing of compensation of officers of the Company or its subsidiaries. A majority of the authorized number of members of the Executive Committee shall constitute a quorum for the transaction of business.

SECTION 3. The Board of Directors shall consist of not less than nine nor more than seventeen members. The authorized number of Directors shall be fixed from time to time, within the limits specified, by a resolution duly adopted by the Board of Directors. A majority of the authorized number of Directors shall constitute a quorum of the Board.

ARTICLE IV

Meeting of Directors

SECTION 1. Meetings of the Board of Directors shall be held at any place which has been designated by resolution of the Board of

Directors, or by written consent of all members of the Board. In the absence of such designation, regular meetings shall be held in the principal executive office.

SECTION 2. Immediately following each Annual Meeting of Shareholders there shall be a regular meeting of the Board of Directors for the purpose of organization, election of Officers and the transaction of other business. In all months other than May in which the Annual Meeting of Shareholders is held there shall be a regular meeting of the Board of Directors on the first Tuesday of each month at such hour as shall be designated by resolution of the Board of Directors. Notice of regular meetings of the Directors shall be given in the manner described in these Bylaws for giving notice of special meetings. No notice of the regular meeting of Board of Directors which follows the Annual Meeting of Shareholders need be given.

SECTION 3. Special meetings of the Board of Directors for any purpose may be called at any time by the Chairman of the Board or, if he is absent or unable or refuses to act, by the President, any Vice President who is a Director, or by any seven Directors. Notice of the time and place of special meetings shall be given to each Director. In case notice is mailed or telegraphed, it shall be deposited in the United States mail or delivered to the telegraph company in the city in which the principal executive office is located at least twenty hours prior to the time of the meeting. In case notice is given personally or by telephone, it shall be delivered at least six hours prior to the time of the meeting.

SECTION 4. The transactions of any meeting of the Board of Directors, however called or noticed, shall be as valid as though in a meeting duly held after regular call and notice if a quorum be present and each of the Directors, either before or after the meeting, signs a written waiver of notice, a consent to holding such meeting, or an approval of the minutes thereof or attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Director. All such waivers, consents or approvals shall be made a part of the minutes of the meeting.

SECTION 5. If any regular meeting of Shareholders or of the Board of Directors falls on a legal holiday, then such meeting shall be held on the next succeeding business day at the same hour. But a special meeting of Shareholders or Directors may be held upon a holiday with the same force and effect as if held upon a business day.

ARTICLE V

Officers

SECTION 1. The Officers of the Corporation shall be a Chairman of the Board, a President, Vice President, one or more of whom, in the discretion of the Board of Directors, may be appointed Executive Vice President, a Secretary and a Treasurer. The Company may have, at the discretion of the Board of Directors, any other Officers and may also have, at the discretion of and upon appointment by the Chairman of the Board, one or more Assistant Secretaries and Assistant Treasurers. One person may hold two or more offices.

ARTICLE VI The Chairman of the Board and the President

SECTION 1. The Chairman of the Board of Directors shall be a member of the Board and the Chief Executive Officer of the Company and shall preside at all Meetings of Shareholders and the Board. The Chairman of the Board shall have general charge and supervision of the Company's business and all of its Officers, employees and agents and he shall have all of the powers and perform all of the duties inherent in that office. The Chairman of the Board shall have additional powers and perform further duties as may be prescribed by the Board of Directors.

SECTION 2. The President shall be a member of the Board and the Chief Operating Officer of the Company. The President shall have all of the powers and perform all of the duties inherent in that office. The President shall have additional powers and perform further duties as may be prescribed by the Board of Directors.

ARTICLE VII

Vice Presidents

SECTION 1. In the Chairman's and the President's absence, disability or refusal to act, the Vice Presidents in order of their rank shall perform all of the duties of the Chairman and the President and when so acting shall have all of the powers and be subject to all of the restrictions of the Chairman and the President. The Vice Presidents shall have such other powers and perform such additional duties as may be prescribed by the Board of Directors or the Chief Executive Officer.

ARTICLE VIII

Secretary

SECTION 1. The Secretary shall keep at the principal executive office, a book of minutes of all meetings of Directors and

Shareholders, which shall contain a statement of the time and place of the meeting, whether it was regular or special and, if special, how authorized and the notice given, the names of those present at Directors' meetings, the number of shares present or represented by written proxy at Shareholders' meetings and the proceedings.

SECTION 2. The Secretary shall give notice of all meetings of Shareholders and the Board of Directors required by the Bylaws or by law to be given, and shall keep the seal of the Company in safe custody. The Secretary shall have such other powers and perform such additional duties as may be prescribed by the Board of Directors or the Chief Executive Officer.

SECTION 3. It shall be the duty of the Assistant Secretaries to help the Secretary in the performance of the Secretary's duties. In the absence or disability of the Secretary, the Secretary's duties may be performed by an Assistant Secretary.

ARTICLE IX

Treasurer

SECTION 1. The Treasurer shall have custody and account for all funds or moneys of the Company which may be deposited with the Treasurer, or in banks, or other places of deposit. The Treasurer shall disburse funds or moneys which have been duly approved for disbursement. The Treasurer shall sign notes, bonds or other evidences of indebtedness for the Company as the Board of Directors may authorize. The Treasurer shall perform such other duties which may be assigned by the Board of Directors or the Chief Executive Officer.

SECTION 2. It shall be the duty of the Assistant Treasurers to help the Treasurer in the performance of the Treasurer's duties. In the absence or disability of the Treasurer, the Treasurer's duties may be performed by an Assistant Treasurer.

ARTICLE X

Record Date

SECTION 1. The Board of Directors may fix a time in the future as a record date for ascertaining the Shareholders entitled to notice and to vote at any meeting of Shareholders, to give consent to corporate action in writing without a meeting, to receive any dividend, distribution, or allotment of rights or to exercise rights related to any change, conversion, or exchange of shares. The selected record date shall not be more than sixty nor less than 10 days prior to the date of the Meeting nor more than sixty days prior to any other action or event for the purposes for which it is fixed. When a record date is fixed, only Shareholders of Record on that date are entitled to notice and to vote at the Meeting, to give consent to corporate action, to receive a dividend, distribution, or allotment of rights, or to exercise any rights in respect of any other lawful action, notwithstanding any transfer of shares on the books of the Company after the record date. The record date for determining Shareholders, entitled to give consent to corporate action in writing without a Meeting, when no prior action by the Board has been taken, shall be the sixtieth calendar day following the day on which the first consent is delivered to the Secretary.

ARTICLE XI

Indemnification of Agents of the Company;
Purchase of Liability Insurance

SECTION 1. For the purposes of this Article, "agent" means any person who is or was a Director, Officer, employee or other agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the Company or of another enterprise at the request of such predecessor corporation; "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative, or investigative; and "expenses" includes, without limitation, attorneys' fees and any expenses of establishing a right to indemnification under Section 4 or paragraph (d) of Section 5 of this Article.

SECTION 2. The Company shall indemnify any person who was or is a party, or is threatened to be made a party, to any proceeding (other than an action by or in the right of the Company to procure a judgment in its favor) by reason of the fact that such person is or was an agent of the Company, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Company, and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of the Company or that the person had reasonable cause to believe that the person's conduct was unlawful.

SECTION 3. The Company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action by or in the right of the Company to procure a judgment in its favor by reason of the fact that such person is or was an agent of the Company, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action if such person acted in good faith and in a manner such person believed to be in the best interests of the Company and its Shareholders.

No indemnification shall be made under this Section 3 for any of the following:

a. In respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Company in the performance of such person's duty to the Company and its Shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine;

b. Of amounts paid in settling or otherwise disposing of a pending action without court approval;

c. Of expenses incurred in defending a pending action which is settled or otherwise disposed of without court approval.

SECTION 4. To the extent that an agent of the Company has been successful on the merits in defense of any proceeding referred to in Section 2 or 3 or in defense of any claim, issue or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

SECTION 5. Except as provided in Section 4, any indemnification under this Article shall be made by the Company only if authorized in the specific case, upon a determination that indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in Section 2 or 3, by any of the following:

a. A majority vote of a quorum consisting of Directors who are not parties to such proceeding;

b. If such a quorum of Directors is not obtainable, by independent legal counsel in a written Opinion;

c. Approval of the Shareholders, with the shares owned by the person to be indemnified not being entitled to vote thereon;

d. The court in which such proceeding is or was pending upon application made by the Company or the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by the agent, attorney or other person is opposed by the Company.

SECTION 6. Expenses incurred in defending any proceeding may be advanced by the Company prior to the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the agent to repay such amount if it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this Article.

SECTION 7. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any agreement, vote of Shareholders or disinterested Directors or otherwise, to the extent such additional rights to indemnification are authorized in the Articles of Incorporation of the Company. The rights to indemnity under this Article shall continue as to a person who has ceased to be a Director, Officer, employee, or agent and shall inure to the benefit of the heirs, executors and administrators of the person.

SECTION 8. No indemnification or advance shall be made under this Article, except as provided in Section 4 or paragraph (d) of Section 5, in any circumstance where it appears:

a. That it would be inconsistent with a provision of the Articles of Incorporation, these Bylaws, a resolution of the Shareholders or an agreement in effect at the time of the accrual of the alleged causes of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification;

b. That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

SECTION 9. The Company shall have the power to purchase and maintain insurance on behalf of any agent of the Company against any liability asserted against or incurred by the agent in such capacity or arising out of the agent's status as such whether or not the Company would have the power to indemnify the agent against such liability under the provisions of this Article.

SECTION 10. This Article does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the Company as defined in Section 1. Nothing contained in this Article shall limit any right to indemnification to which such a trustee, investment manager or other fiduciary may be entitled by contract or otherwise, which shall be enforceable to the extent permitted by applicable law.

ARTICLE XII

Seal

SECTION 1. The Company shall have a common seal upon which shall be inscribed:

"Pacific Enterprises
Incorporated May 21, 1907
California"

Draft
Dated 2-18-99

BY LAWS
OF
PACIFIC ENTERPRISES
March 2, 1999

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION
EXTRACTED FROM THE STATEMENT OF CONSOLIDATED INCOME, BALANCE SHEET,
AND CASH FLOWS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO
SUCH FINANCIAL STATEMENTS.
0000075527
PACIFIC ENTERPRISES
1,000,000

YEAR
DEC-31-1998
DEC-31-1998
PER-BOOK
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2,258
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214
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147
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143
97
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615
0
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